

**P A D C O**

PLANNING AND DEVELOPMENT COLLABORATIVE INTERNATIONAL

# **Description and Analysis of Housing Sector Investment Program Projects 2, 4, 5, 9, 10, 11, 12**

Prepared for

**United States Agency for International Development  
City of Bielsko Biala**

Prepared by

**PADCO, Inc.  
Washington, DC**

**Contract No. EUR-0034-C-00-4029-00**

**September 1997**

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## Executive Summary

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The Housing Sector Investment Program (HSIP) of the city of Bielsko Biala is composed of 12 projects aimed at improving various aspects of the city's housing sector. The Program will be funded by a PLN 30,000,000 line of credit.

Seven out of the 12 proposed projects of the HSIP are described and analyzed here in terms of objectives, plans for implementation, anticipated social and economic benefits, financial feasibility, and risks. These programs have various aims, including (i) upgrading communal housing, (ii) stimulating private investment in housing renovation, (iii) temporarily assisting those unable to pay their rents as they rise in conjunction with housing improvements, (iv) assembling municipal parcels and providing them with critical infrastructure so they can be sold for residential development, (v) converting ground floor residential units to commercial use, and (vi) providing relocation housing for tenants displaced by housing improvements or conversion.

The report closes with a section of conclusions and recommendations for Bielsko Biala. These stress the importance of (i) the city and its housing authority significantly bolstering their institutional capacity in order to tackle the complex legal and financial issues that the projects will present, (ii) the city continuing the transition from being a provider of housing to an enabler in the sector and conducting the HSIP in a manner consistent with this, (iii) the city privatizing more of its housing stock, a move that will attract needed private maintenance and management to the sector, and (iv) the city reviewing the projects not simply within the context of the HSIP, but also within the context of a comprehensive capital improvement program, in order to prioritize their investment choices. Finally, it should be noted that although some of the projects are not financially viable in their own right, all will produce social and economic benefits that may well outweigh their costs.

### 1 Introduction and Context

The Polish Local Self-Government Act gave *gminas* (also referred to here as municipalities or cities) throughout the country a mandate to “satisfy the collective needs of the community concerning matters of municipal housing construction.” Behind this simple statement lies the complex task of fundamentally restructuring the way in which the nation houses itself. This challenge concerns increasing numbers of residents, public officials, property owners, and intermediaries in the construction, finance, and property management sectors.

The transformation of the housing sector to one that is market-based is part of the overall social, political, and economic transition taking place today in Poland. The long-run benefits of this transformation in housing should be substantial. But before reaping these benefits, *gminas* face significant technical, managerial, and financial challenges. They must anticipate and plan for housing needs, enable and promote broad private sector participation, and do their part financially under changing economic and fiscal conditions.

There are signs that some *gminas* are developing the knowledge and skills with which to meet the challenges posed in the housing sector. Bielsko Biala has become a leader among *gminas*, successfully linking a housing policy developed in 1996 with an innovative investment program in 1997. In July 1997, Mayor Zbigniew Leraczyk spoke of his city's recent efforts to finance work in the housing sector:

We originally intended to issue a 100,000,000 PLN municipal bond, as this was the scale, as we saw it, of the needs in the housing sector, including associated infrastructure, in the city. An analysis was done that indicated that, in keeping with the *gmina*'s financial potential and development plans, will require additional sources of revenue; a bond issue for the required amount would not make financial sense, despite earlier announcements that this was the city's intention. Instead, we have decided on a 30,000,000 PLN line of credit. According to experts advising us, this form of non-budgetary funding will be the most advantageous to the city and the programs we intend to pursue. We were able to negotiate favorable conditions with the bank we selected. Funds will only be drawn down as needed. This flexibility would not be possible with a bond instrument.

With an open line of credit available, the city will now move to implement its program.

This report gives an overview of the main steps achieved so far: establishing the housing policy, estimating financing needs, evaluating the city's debt-carrying capacity, and defining the housing programs that will be financed under the Program.

### **1.1 The City's Housing Strategy**

Between 1993 and 1995, the public sector built 241 new housing units and the private sector completed 591, for a total of 832 units. But during the same period, 230 units were taken out of use, for a net gain of 602 units. Although the city's population has remained stable, this rate of new construction does not satisfy demand, as it does not respond to the growing needs of the new households created during this period — between 1993 and 1995 there were 2,619 marriages in the city, or nearly 900 per year, on average (though one shouldn't assume, of course, that each marriage led to the demand for an additional housing unit). Moreover, the existing housing stock has been inadequately maintained by both the *gmina* and private owners — resulting in an urgent need for rehabilitation. These pressing issues guided the development of the city's housing strategy.

In June of 1996, the City Council unanimously approved a housing strategy (*polityka mieszkaniowa*) setting the following goals for the year 2004.

- Promotion of the development of new housing stock with direct financial involvement of tenants, owners, co-op members, private entrepreneurs, and the *gmina*. Specifically, increase in the number of units to be constructed by the public sector in the next three to five years to a level of 350 units per year, and removal of barriers to new private sector construction.
- Improvement of the standard of the existing housing stock through innovative approaches to rehabilitation and renovation, including participation by occupants.
- Provision of basic housing to households that are truly in need and unable to obtain decent housing with their own resources. (This is a statutory obligation of local governments.)

To implement the strategy, the city identified a variety of housing programs that together are referred to as the Housing Sector Investment Program. These programs were discussed at length and the relative priorities for investment were agreed upon, resulting in a preliminary list of 12 housing programs approved in principle by the City Management Board in May 1997. A

Municipal Bond Committee was established to estimate financing requirements and identify sources of long-term funding for the programs.

The Committee, chaired by the Vice-Mayor, Jerzy Krawczyk, was made responsible for coordinating and later approving the key areas of investment in housing programs. The Committee itself, under the leadership of City Development Officer Jan Gerlach, invited PADCO consultants Jan Czarniecki and Marek Majchrzak and RTI consultant Chris Kaczmarek to analyze both the financial and economic feasibility of the proposed Housing Sector Investment Program components. These consultants were provided to the city by the United States Agency for International Development, under its Housing Finance and Municipal Advisory Program.

## **1.2 Gmina Financial Analysis**

In 1995, the Municipal Development Authority (MDA), an independent institution working to expand municipalities' access to capital markets, developed a computer model for local government financial analysis. The model provides a simple methodology for making medium-term projections of municipal budget revenues and expenditures and the resulting funds available for investment and debt service. Using the model, *gminas* can realistically schedule capital investment plans under different debt-financing scenarios.

The *Gmina* Financial Analysis Model (GFAM) was used to assess the debt-carrying capacity of Bielsko Biala, with particular reference to the proposed housing sector programs and investments. The model was used to analyze the projected operating budget revenues and expenditures, to analyze the city's capital investment plans, and to assess the debt-carrying capacity of the *gmina* and the impact of planned investments on the *gmina's* budget.

The results of the *gmina* financial analysis were revealing. As mentioned above, prior to the analysis, the *gmina* had anticipated issuing municipal bonds to raise the more than 100 million PLN needed. In 1997 alone, the city planned general capital investments totaling more than 57 million PLN, of which 4.88 million PLN was earmarked for the housing sector. As a result of the analysis, it was determined that the city had at its disposal only some 20 million PLN for the planned investments. The analysis found that a maximum level of debt should not exceed 30 million PLN in 1997 and approximately 70 million over a four-year period. At the same time, maximum annual ceilings for capital expenditures in individual budgetary categories were determined based on municipal budget projections over the next 10 years. This analysis ultimately became the basis for several banks' evaluation of Bielsko Biala's creditworthiness and led to the conclusion that a bank credit line would be more advantageous than a municipal bond issue. The credit line facility can be drawn down as needed and repaid as funds are available. Interest is only payable on the outstanding balance. In fact, a bond issue for the envisioned amount might have caused the financial collapse of the city. Certainly, it would have hampered investment activity in other "non-housing" municipal service areas.

After the financial analysis was completed, RTI assisted the *gmina* in preparing a loan application following procedures and standards developed under the USAID-funded program. Banks were invited to submit proposals to the city, and eight banks expressed an interest in doing so. The city and RTI then conducted a workshop for the banks, where the results of the GFAM were presented. Participants were informed of the methodology and financial parameters used in the *gmina* financial analysis. The methodology defines a "safe range" of debt-carrying capacity, within which planning and programming for capital investment should occur and also projects the impact



of debt on future city budgets. During the workshop, four of the banks that submitted proposals were requested to send in their “best and final” offers to the city. They were Bank Przemyslowo-Handlowy (BPH), Bank Slaski (BS), Wielkopolski Bank Kredytowy (WBK), and PKO BP. The city evaluated the proposals and chose PKO BP.

### **1.3 Commercial Bank Line of Credit**

Because of the complexity and timing of the Housing Sector Investment Program, it was decided that the most suitable and flexible instrument to satisfy the city’s requirements would be a commercial line of credit, in the amount of PLN 30 million, available to be drawn down beginning in 1997. The credit line is to be open for a 10-year period. Tadeusz Solski, director of the Bielsko Biala branch of PKO BP, commented on the city’s plans and financial condition.

We as a bank do not view the *Gmina* as being in any worsening financial condition. The problem with the *Gmina* lies more with not being able to keep up with adequate revenue levels to finance planned investments. And the plans are impressive indeed. The bank would not have decided to initiate a line of credit for the *Gmina* had we not had the level of comfort with the city’s financial condition. The good financial situation of the city and *Gmina* prompted us to act. Not detracting from the offers from other banks, we offer a stable, predictable interest rate, which is tied to the inflation index. The bank I represent, PKO BP, feels satisfied, that it can participate in such a praiseworthy and ambitious plan for the city’s development.

The bank’s (PKO BP) interest rate is variable, indexed through a base rate mechanism (currently at 19.5 percent) plus 1.8 percent. The loan is to be secured by the municipality’s general revenues. Since the loan is structured as an open line of credit, the city has the freedom to draw on that line only as needed and to repay the line as funds are available.

### **1.4 The Housing Sector Investment Program**

In parallel with the financial analysis, the city started to develop and evaluate the 12 programs that it had identified as potential components of the Housing Sector Investment Program. The aim was to:

- define each program — its objectives, approach, participation criteria, etc.;
- identify target beneficiaries and expected results;
- identify significant risks that could affect the expected results;
- estimate the net financial impact of the program; and
- identify performance indicators for monitoring and evaluation of the program.

Descriptions of the 12 programs follow.

#### **1.4.1 Revitalization of Old Town**

This program would commit limited public resources to create favorable investment conditions for the private sector in order to catalyze private investment in the revitalization process. The public funds would support the initial start-up and management of the revitalization effort and would be applied toward unfavorable impacts of the program, such as relocation costs for displaced residents and some costs associated with architectural restoration and preservation.

### **1.4.2 Modernization and Improvement of Technical Standards in Communal Housing**

This component would provide investment in repairs and upgrading to raise the technical standard of existing housing stock, which will also justify systematically increasing the rent levels in communal buildings.

### **1.4.3 Land and Infrastructure for New Housing via AWIMs**

This program would provide infrastructure services to sites designated for new housing construction under the AWIM program.

### **1.4.4 Renovation Guarantee Fund (for Housing Associations)**

Owners of privately owned housing units are responsible for the maintenance of their buildings and for the payment of their share of rehabilitation costs. However, these rehabilitation costs are often enormous relative to the limited financial resources of the majority of unit owners, whose access to financing is also limited. The *gmina* is aware that it is crucial to intensify renovation and modernization of buildings co-owned by the city and individual owners. The proposed Renovation Guarantee Fund would stimulate private investment and speed up the renovation process.

### **1.4.5 Rent Collection Fund**

Rents for communal housing should be systematically increased, at a rate above that of inflation, though it is recognized that this may increase non-payment by tenants. This fund will encourage poor tenants to continue paying and avoid default by temporarily subsidizing rent shortfalls.

### **1.4.6 Communal Housing**

Construction of approximately 36 units of new communal housing will be undertaken.

### **1.4.7 TBS with 40 Percent Municipal Cost Sharing**

This program will finance the *gmina*'s contribution to the construction of housing units for rent at moderate rent levels under the TBS program.

### **1.4.8 TBS with 30 Percent Municipal Cost Sharing**

This program will finance the *gmina*'s contribution to the construction of housing units built with TBS/KFM funds, but with higher contributions by residents or additional non-*gmina* funding.

### **1.4.9 Land Purchase and Sale Program**

The land program will assemble municipal land parcels to be offered for sale for residential development. The parcels will be provided with basic infrastructure if it is lacking, then they will be marketed and tendered.

### **1.4.10 Infrastructure**

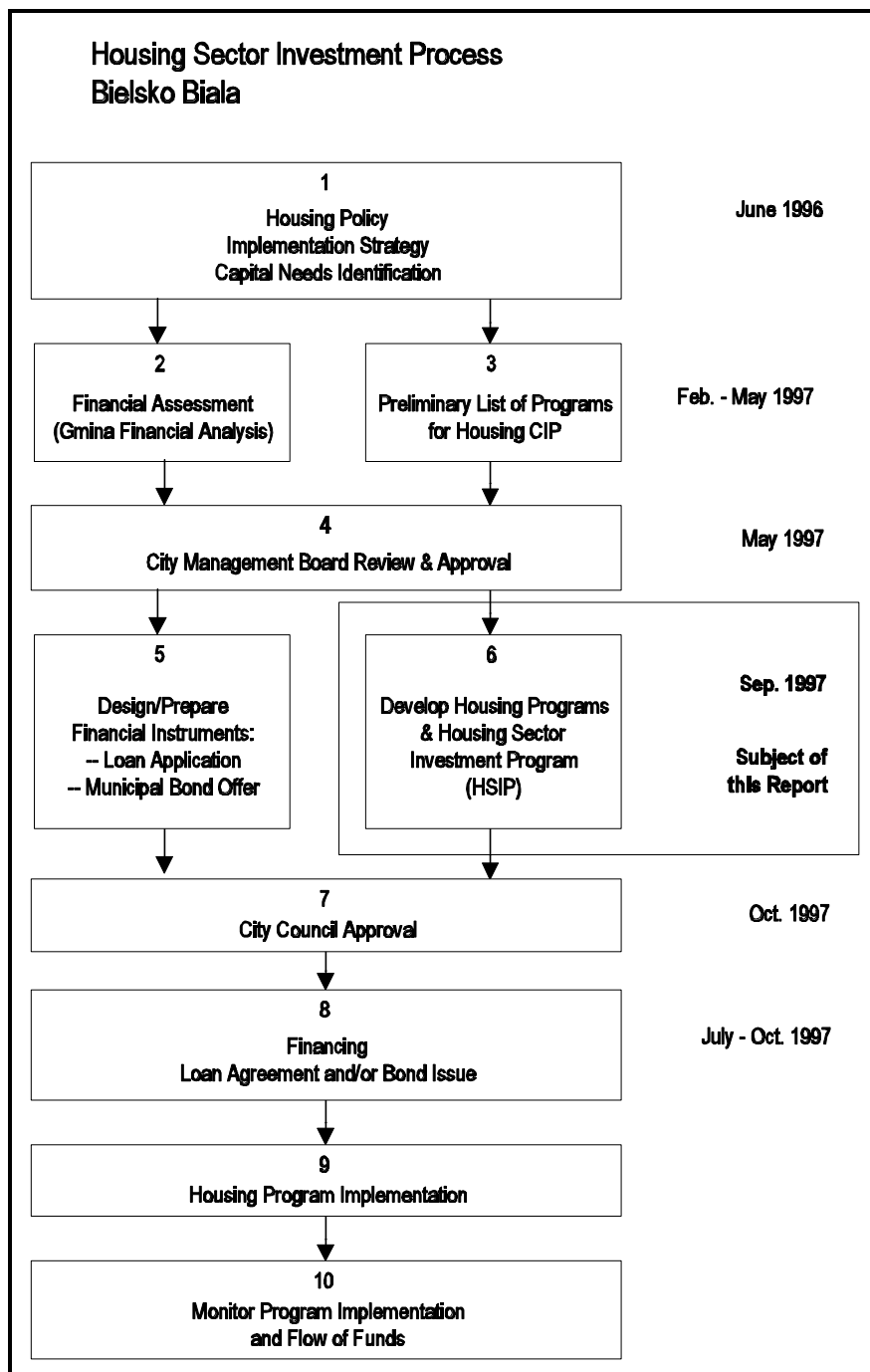
This program would supply critical infrastructure to selected existing *gmina*-owned sites (see 1.4.9) to encourage private developers to purchase the sites through a tendering process.

#### 1.4.11 Adaptation of Units for Temporary Relocation Housing

Unused former industrial buildings will be converted to provide relocation housing for households temporarily displaced during the Old Town Revitalization and other programs. For some households to be relocated on a permanent basis, permanent housing in other locations will be provided or existing attic spaces converted for residential use.

#### 1.4.12 Rehabilitation and Conversion of Ground Floor Units for Commercial Use

Ground floor residential units located in attractive commercial areas would be converted to commercial spaces that can generate large rent or sales revenues. The existing households would be permanently relocated.



## 1.5 Project Summary

Of the 12 projects that form the Housing Investment Program, seven have been analyzed in this report. To effectively gauge the impact of each of these programs, a common format was chosen for the analyses. The intention was to enable the analyses to be clear and concise, providing the decision-makers in the city the information they will need to decide which program elements will be most effective in pursuing the strategic objectives of the city in the housing sector.

Bielsko Biala Housing Sector Investment Program						
Investment Program		1997	1998	1999	2000	TOTAL
1	Revitalization of Old Town*	180,000	1,265,000	1,335,100	1,170,000	3,950,100
2	Modernization and improvement of communal housing	1,100,000	1,250,000	1,400,000	1,300,000	5,050,000
3	Land and infrastructure for new housing via AWIMs*	600,000	1,380,000	1,520,000		3,500,000
4	Renovation guarantee fund		150,000	150,000	200,000	500,000
5	Rent collection efficiency and improvement fund	200,000	200,000	150,000	100,000	650,000
6	Communal housing*	2,870,000				2,870,000
7	TBS (40% municipal)*	200,000	410,000	200,000		810,000
8	TBS (30% municipal)*	250,000	800,000	800,000		1,850,000
9	Communal land for new housing	500,000	300,000			800,000
10	Infrastructure for new housing		1,000,000	1,000,000		2,000,000
11	Conversion of industrial buildings for relocation housing	420,000	450,000	350,000	300,000	1,520,000
12	Conversion and adaptation of ground floor units	300,000	400,000	300,000	200,000	1,200,000

\* Investment schedule and detailed analysis to be provided by others.

Some of the programs will not be fully cost recoverable. However, other program revenues will help the city repay the credit line. Those revenues will come, in the short term, through land sales and rent increases, as well as indirectly through increased construction activity generating

additional tax revenue and employment in the area. Each of these programs is directed at the fulfillment of the *gmina*'s housing strategy — improving the quality of the existing housing stock as well as increasing the amount of new housing construction by both the public and private sector.

## **1.6 Format of Descriptions and Analysis**

Although only the analyses for Programs 2, 4, 5, 9, 10, 11, and 12 have been provided in this report, the remaining five programs would be subjected to a similar analysis. The analysis of each of the seven programs is organized as follows.

- Program Description and Objectives
- Program Implementation
- Anticipated Social and Economic Benefits
- Program Financial Feasibility
- Program Risks

## **2 Housing Sector Investment Program**

### **2.1 Program 2 — Modernization and Improvement of Communal Housing**

#### **2.1.1 Program Description and Objectives**

More than 50 years of limited maintenance has resulted in serious degradation of the existing housing stock. Housing conditions in Bielsko Biala reflect the deep crisis of this sector throughout the country. This program will help prevent further deterioration of communal housing stock by progressively rehabilitating communal housing units and justifying the raising of rents to economic levels and thereby permitting adequate resources to be devoted to management and maintenance.

One of the goals of the Housing Strategy was to raise the standard of the existing communal housing stock, through rehabilitation, modernization activity, as well as improved management and maintenance activity. This program addresses this goal.

The program objectives are as follows:

- halting the further degradation of the communal housing stock by progressive building modernization and rehabilitation (and creating some much-needed new units through expansion and rooftop additions);
- implementing an aggressive rent increase program; and
- upgrading the standards of building management and maintenance in concert with the increases of rent.

<b>Program 2: Planned Funding Levels</b>				
<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>TOTAL</b>
1,100,000	1,250,000	1,400,000	1,300,000	5,050,000

### **2.1.2 Program Implementation**

Program implementation will consist of the following steps:

- identification and assessment of buildings most in need of rehabilitation;
- preparation of scopes of work, designs, and cost estimates;
- identification of units for temporary or permanent relocation for tenants of buildings being modernized;
- construction contract tendering (in accordance with the Public Procurement Act);
- construction, including demolition, modernization, and reconstruction works; and
- resettling tenants (previous tenants return to their upgraded units or new tenants move in), raising rents, and upgrading management and maintenance.

This program will be dependent on Program 11: “Conversion of Industrial Buildings for Relocation Housing” as some buildings will need to be temporarily vacated in order to carry out the improvement works.

The program will be implemented by the ZGM between 1997 and 2000 with the financial resources coming from the PKO BP line of credit.

It is envisioned that the first phase (1997-98) would consist of the modernization of two communal apartment buildings, ul. Grazynskiego 27 and ul. Kustronia 96, buildings for which technical documentation is ready, scopes of work have been prepared, costs have been estimated, and all formal issues have been addressed. For subsequent phases, other buildings will be identified as described earlier.

It should be noted that given the scale of rehabilitation and modernization required in the housing stock of Bielsko Biala and, consequently, the financial resources required, the funds allocated to this program are estimated to address the rehabilitation needs of about 1% of the existing communal housing stock. To achieve a more complete rehabilitation of communal housing would clearly require the continuation of this program at significantly higher levels of funding.

### **2.1.3 Anticipated Social and Economic Benefits**

The following are the social and economic benefits anticipated to result from this program:

- improved level of satisfaction of communal tenants with their housing units;
- improved building and unit security;
- improved environmental conditions through removal of hazardous conditions and materials;
- extension of the economic life and increase of the value of the units;
- upgrading of the category of the building units, for rent and other purposes;
- increase in rents at a rate significantly above inflation, permitting improved management and maintenance;
- addition of small numbers of additional units (due to roof top and floor additions) to the stock;
- lowering of operating expenses due to improved energy efficiency and metering;
- due to the above social and economic benefits, increasing interest among tenants in purchasing their units; and

- significant increase of replacement and market values of the *gmina*'s housing stock.

#### **2.1.4 Financial Feasibility**

The analysis of the financial feasibility of this program focuses on the modernization and improvement of two communal housing buildings — ul. Grazynskiego 27 and ul. Kustronia 96. The rents, operating expenses, and rehabilitation costs developed for these two buildings were used as parameters for projecting the future expenditures of Program 2 funds and for estimating the number of additional communal housing units that will be renovated over the ensuing four-year period, consistent with the financial resources earmarked for the program.

Grazynskiego was built in 1872 and currently contains eight units of communal housing, one of which is vacant. All of the existing units will be modernized and improved. The four vacant third-floor rooms will be enlarged and rehabilitated and a fourth floor will be added, increasing the total number of units to 15. One commercial tenant in the ground floor of Grazynskiego will remain during rehabilitation, with only minor alterations to the entry being planned. Kustronia was built in 1908 and currently contains six communal housing units, all of which are vacant and fire damaged. All of the existing units will be substantially rehabilitated. The area of one of the units will be enlarged. The modernization and improvement of these communal housing units will allow them to be reclassified into a higher rent category.

Predevelopment costs in the amount of 28,820 PLN have already been expended in 1997 on preliminary architectural and engineering drawings for the planned rehabilitations of Grazynskiego and Kustronia. The estimated construction cost for both buildings is 797,730 PLN or approximately 760 PLN/m<sup>2</sup>. Construction activity on both buildings will commence in early 1998 and will be completed before the end of the year. During this time, residential tenants will be relocated to rotational housing, similar to that being developed under Program 11. The cost of this relocation will not be paid from Program 2 funds and will be separately borne by the municipal government.

In 1998, 79,351 PLN in predevelopment costs will be incurred on the rehabilitation of an additional 49 communal housing units to be renovated in 1999 at a projected cost of 2,159,189 PLN. In 1999, predevelopment costs of 71,384 PLN will be incurred on the rehabilitation of an additional 38 communal housing units to be renovated in 2000 at a projected cost of 1,913,527 PLN. These projected Program 2 expenditures were derived from the average predevelopment and rehabilitation costs per unit for Grazynskiego and Kustronia inflated 18 percent in 1998, 16 percent in 1999, and 14 percent in 2000. It is projected that Program 2 funds will be sufficient to renovate 108 communal housing units over the four-year period. Based on a 14 percent share of construction costs for labor and an average worker's salary of 600 PLN/month, a total of 95 jobs over the four-year period will be generated by Program 2.

As mentioned earlier, the modernization and improvement of communal housing under Program 2 will permit initial rent increases after rehabilitation based on the unit reclassifications. Beyond 1998, the income projection for Grazynskiego and Kustronia shows the planned aggressive annual rent increases being proposed by the ZGM of 51 percent in 1999 and 33 percent in 2000. Operating expenses are projected to increase at the rate of 15 percent in 1998, 12 percent in 1999, and 11 percent in 2000. Mechanical system repairs are projected to increase only at 12 percent due to improvements being completed during the rehabilitation, and repairs and maintenance are

projected to increase by 20 percent due to increased diligence in maintaining the improved condition of both buildings.

As mentioned, Program 2 is being financed by the city through an open line of commercial credit with PKO BP. The interest rate on this debt is currently 19.5 percent plus 1.8 percent, or 21.3 percent, which is 8.3 percent over the actual inflation rate of 13 percent. For the purpose of these analyses, the interest rate is trended at 8.3 percent over the projected inflation rates of 13 percent in 1998 or 21.3 percent, 10 percent in 1999 or 18.3 percent, and 8 percent in 2000 or 16.3 percent. Interest must be paid at least annually from either program cash flow or municipal budget.

Even with the ZGM's aggressive rent increases, the income projection for Grazynskiego and Kustronia does not show any cash flow before debt over the four-year period. Operating deficits do decrease to almost break even in the year 2000, and it is anticipated that break even and even slightly positive cash flow will be achieved in future years. However, no repayment of Program 2 expenditures or its accompanying interest can be anticipated from the net cash flow of the communal housing over the four-year period. Long-term city revenues from real estate taxes have not been considered in the analysis, as they are extremely low and not currently based on actual value. A new law tying property taxes to value is anticipated within the next few years and should increase revenues to the city, particularly from improved buildings, such as those being rehabilitated under Program 2.

Overall, Program 2 expenditures will total 5,050,000 PLN over the four-year period, with accompanying interest of 1,596,220 PLN based on the projected expenditure schedule and interest rates on the PKO BP credit line. With interest, therefore, the total cost of Program 2 is estimated to be 6,646,221 PLN over the four-year period. Little or no return is projected from Program 2's investment in the communal housing stock over the four-year period, and the investment will not be recovered. However, break-even operations should begin to occur after 2000 provided the ZGM's proposed rent increases are approved by the city.

### **2.1.5 Program Risks**

Factors that could threaten the program's successful implementation include the following:

- resistance on the part of existing tenants to temporary relocation or substitute housing;
- additional construction costs due to the historic character of some of the buildings (as dictated by the conservator of monuments);
- a limited supply of housing units for temporary relocation, which would hamper relocation of tenants and delay the program;
- increases in construction costs due to inflation;
- delays and increases in construction costs due to "unforeseen" technical conditions; and
- delays and additional costs due to the lack of interest in the project by contractors during the tendering process (Public Procurement Act).



Placeholder for program2.xlw page 1

**PROGRAM 2 - Modernization & Improvement of Communal Housing**

<b><u>CURRENT CONDITION</u></b>	<b><u>AREA</u></b> <b><u>(m2)</u></b>	<b><u>RENT</u></b> <b><u>CLASS</u></b>	<b><u>MONTHLY</u></b> <b><u>RENT</u></b>	<b><u>ANNUAL</u></b> <b><u>RENT</u></b>
<b><u>ul. Grażyńskiego 27</u></b>				
Apt. 1	47.40	4	52.61	631.32
Apt. 2	34.94	7	31.80	381.60
Apt. 3 - vacant	23.64	7		
Apt. 4	49.59	7	45.13	541.56
Apt. 5 - missing				
Apt. 6	47.39	6	46.44	557.28
Apt. 7	53.63	5	55.78	669.36
Apt. 8	69.02	5	71.78	861.36
Apt. 9	50.45	6	49.44	593.28
Apt. 10 - vacant	23.44			
Apt. 11 - vacant	23.99			
Apt. 12 - vacant	23.34			
Apt. 13 - vacant	24.36			
RESIDENTIAL SUBTOTAL	471.19		352.98	4,235.76
COMMERCIAL/RETAIL	60.48		449.02	5,388.24
<b>TOTAL GRAZYŃSKIEGO</b>	<b>531.67</b>		<b>802.00</b>	<b>9,624.00</b>
<b><u>ul. Kuźtronia 96</u></b>				
Apt. 1	58.61	3	68.57	822.84
Apt. 2	20.13	6	19.73	236.76
Apt. 3	21.50	5	22.36	268.32
Apt. 4	26.00	5	27.04	324.48
Apt. 5	41.70	5	43.37	520.44
Apt. 6	15.60	6	15.29	183.48
<b>TOTAL KUSTRONIA</b>	<b>183.54</b>		<b>196.36</b>	<b>2,356.32</b>
<b>GRAND TOTAL CURRENT</b>	<b>715.21</b>		<b>998.36</b>	<b>11,980.32</b>

<b><u>AFTER REHABILITATION</u></b>	<b><u>AREA</u></b> <b><u>(m2)</u></b>	<b><u>RENT</u></b> <b><u>CLASS</u></b>	<b><u>MONTHLY</u></b> <b><u>RENT</u></b>	<b><u>ANNUAL</u></b> <b><u>RENT</u></b>
<b><u>ul. Grażyńskiego 27</u></b>				
Apt. 1	35.50	1	46.15	553.80
Apt. 2	47.20	1	61.36	736.32
Apt. 3	48.10	1	62.53	750.36
Apt. 4	48.90	1	63.57	762.84
Apt. 5	43.70	1	56.81	681.72
Apt. 6	48.50	1	63.05	756.60
Apt. 7	68.80	1	89.44	1,073.28
Apt. 8	49.90	1	64.87	778.44
Apt. 9	47.00	1	61.10	733.20
Apt. 10	51.30	1	66.69	800.28
Apt. 11	70.90	1	92.17	1,106.04
Apt. 12	49.30	1	64.09	769.08
Apt. 13	47.40	1	61.62	739.44
Apt. 14	53.70	1	69.81	837.72
Apt. 15	69.90	1	90.87	1,090.44
RESIDENTIAL SUBTOTAL	780.10		1,014.13	12,169.56
COMMERCIAL/RETAIL	59.80		449.02	5,388.24
<b>TOTAL GRAZYŃSKIEGO</b>	<b>839.90</b>		<b>1,463.15</b>	<b>17,557.80</b>
<b><u>ul. Kuźtronia 96</u></b>				
Apt. 1	58.61	3	68.57	822.84
Apt. 2	20.13	6	19.73	236.76
Apt. 3	21.50	5	22.36	268.32
Apt. 4	26.00	5	27.04	324.48
Apt. 5	41.70	4	45.87	550.44
Apt. 6	31.20	5	32.45	389.40
<b>TOTAL KUSTRONIA</b>	<b>199.14</b>		<b>216.02</b>	<b>2,592.24</b>
<b>GRAND TOTAL AFTER REHABILITATION</b>	<b>1,039.04</b>		<b>1,679.17</b>	<b>20,150.04</b>

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## PROGRAM 2 - Modernization & Improvement of Communal Housing

BLDG. 1 = ul. Grazynskiego 27

BLDG. 2 = ul. Kustronia 96

	<u>1997</u>			<u>1998</u>			<u>1999</u>	<u>2000</u>	<u>TOTAL</u>
<b><u>SOURCES OF REVENUE</u></b>	<b><u>BLDG. 1</u></b>	<b><u>BLDG. 2</u></b>	<b><u>TOTAL</u></b>	<b><u>BLDG. 1</u></b>	<b><u>BLDG. 2</u></b>	<b><u>TOTAL</u></b>			
Gross Residential Income	4,235.76	2,356.32	6,592.08	12,169.56	2,592.24	14,761.80	22,290	29,646	73,290
Projected Residential Rent Increases							51%	33%	
Vacancies & Bad Debts	554.19	(569.18)	(1,123.37)	(1,592.22)	(626.17)	(2,218.38)	(3,350)	(4,455)	(11,147)
Net Residential Income	3,681.57	1,787.14	5,468.71	10,577.34	1,966.07	12,543.42	18,941	25,191	62,144
Housing Allowances Received		23.73	23.73		23.97	23.97	24	24	96
Gross Commercial/Retail Income	5,388.24		5,388.24	5,388.24		5,388.24	5,927	6,401	23,105
Projected Commercial/Retail Rent Increases							10%	8%	
Vacancies & Bad Debts (10%)							(593)	(640)	(1,233)
Net Commercial/Retail Income	5,388.24		5,388.24	5,388.24		5,388.24	5,334	5,761	21,872
TOTAL SOURCES OF REVENUE	9,069.81	1,810.87	10,880.68	15,965.58	1,990.04	17,955.62	24,299	30,976	84,112
<b><u>USES OF REVENUE</u></b>									
Projected Operating Expense Increases				15%	15%		12%	11%	
Electric	748.02	49.19	797.21	860.22	56.57	916.79	1,027	1,140	3,881
Supply & Waste Water	1,441.93	273.51	1,715.44	1,658.22	314.54	1,972.76	2,209	2,453	8,350
Chimney/Flue Installation	80.60	46.80	127.40	92.69	53.82	146.51	164	182	620
Repairs & Maintenance	1,417.87	10.16	1,428.03	1,701.44	12.19	1,713.64	2,056	2,468	7,666
Local Municipal Taxes	662.93	54.77	717.70	762.37	62.99	825.36	924	1,026	3,494
General Administrative Costs	2,079.29	852.55	2,931.84	2,391.18	980.43	3,371.62	3,776	4,192	14,271
Property Insurance	30.32	12.26	42.58	34.87	14.10	48.97	55	61	207
Miscellaneous	1,177.23	281.69	1,458.92	1,318.50	315.49	1,633.99	1,830	2,050	6,973
Mechanical System Repairs	9,493.39	4,269.42	13,762.81	10,917.40	4,909.83	15,827.23	17,726	19,676	66,993
TOTAL USES OF REVENUE	17,131.58	5,850.35	22,981.93	19,736.89	6,719.96	26,456.85	29,769	33,247	112,454
NET CASH FLOW BEFORE DEB	(8,061.77)	(4,039.48)	#####	(3,771.31)	(4,729.92)	(8,501.23)	(5,470)	(2,270)	(28,342)
<b><u>PROGRAM 2 TOTAL EXPENDS.</u></b>									
Predevelopment Cost	25,590	3,230	28,820	0	0	0	0	0	28,820
Rehabilitation Cost	0	0	0	665,730	132,000	797,730	0	0	797,730
PROGRAM 2 EXPENDITURES	25,590	3,230	28,820	665,730	132,000	797,730			826,550
Program 2 Cumulative			28,820			826,550			
Interest on Program 2 Cumulative			6,139			176,055	151,259	134,728	468,180
Projected Interest Rate on Debt			21.3%			21.3%	18.3%	16.3%	
<b>NET CASH FLOW AFTER DEBT</b>			<b>(18,240)</b>			<b>(184,557)</b>	<b>(156,728)</b>	<b>(136,998)</b>	<b>(496,523)</b>

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**PROGRAM 2 - Modernization & Improvement of Communal Housing**

<b><u>PROGRAM 2 EXPENDITURE</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>	<b><u>TOTAL</u></b>
Average Predevelopment Cost	28,820	79,351	71,384	0	179,555
Average Rehabilitation Cost	0	797,730	2,159,189	1,913,527	4,870,446
Projected Inflation Rate on Cost		18%	16%	14%	
<b>PROGRAM 2 EXPENDITURE</b>	<b>28,820</b>	<b>877,081</b>	<b>2,230,573</b>	<b>1,913,527</b>	<b>5,050,000</b>
Projected Number of Residential	0	21	49	38	108
Program 2 Cumulative	28,820	905,901	3,136,474	5,050,000	
Interest on Program 2 Cumulative	6,139	192,957	573,975	823,150	1,596,220
Projected Interest Rate on Debt	21.3%	21.3%	18.3%	16.3%	
Program 2 Cash Flow Before Debt	0	0	0	0	0
<b>PROGRAM 2 WITH INTEREST</b>	<b>34,959</b>	<b>1,070,038</b>	<b>2,804,547</b>	<b>2,736,677</b>	<b>6,646,221</b>

## **2.2 Program 4 — Housing Association Renovation Fund**

### **2.2.1 Program Description and Objectives**

The Housing Association Renovation Fund is designed to mobilize the resources of private owners of apartments for the renovation and modernization of mixed-ownership (public-private) buildings. Funds earmarked in the Housing Sector Investment Program are as follows.

<b>Program 4: Condominium Renovation Fund</b>				
<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>TOTAL</b>
-	150,000	150,000	200,000	500,000

Before the Housing Property Law took effect, buying an apartment from the State or from a municipality didn't obligate the owner to pay for all of the costs of maintenance and renovations in the units or for the maintenance of the common areas of the building. After purchasing an apartment, the owner still paid a low official "rent" and, because the municipality sold the apartments at low prices, the new owners were often poor and couldn't afford maintenance and renovation expenses in any case. However, since January 1, 1995, under the Housing Property Law, the owners of privatized units are responsible for covering all of the costs of maintenance and renovation of their apartments and their proportionate share of the common areas of the property. They do not receive support from municipalities, which are obligated to maintain their communal units. Since many of the low-income apartment owners are elderly people on fixed incomes, their ability to pay maintenance costs is limited.

The issue of financing the costs of capital improvements in buildings that haven't been renovated for years is another important issue. The underfunding of housing maintenance by the State and later the municipalities over many years is the source of this problem. So, many owners of privatized units have applied to the municipalities for funds for renovations citing years of public sector negligence.

However, in some of the wealthiest Polish cities (or neighborhoods of larger towns), financial assistance in renovation and modernization work for privately owned apartments has been available, with the municipality paying practically the full cost of renovations of common areas of mixed-ownership buildings. Towns that aren't at that level but are still in good financial condition have subsidized renovations, modernization, and even apartment improvements (e.g., heating system improvement, remodeling of a kitchen, or introduction of a bathroom or water closet). They also have assisted with renovations and improvements to the common areas of a building (e.g., staircase renovation, roof work, facade work, and the creation of children's playgrounds). Obviously, the municipalities must underwrite the full costs of improvements for the units they own. However, in the case of apartments purchased from a municipality, subsidies have constituted 20 percent to 33 percent of the cost of work associated with improving a unit and 33 percent to 51 percent of the costs of renovation of common areas.

Another factor is the lack of financing available to homeowner's associations, which, not being fully recognized legal entities, cannot access low-interest, state-subsidized loans and subsidies from municipal budgets. In September 1997, the law was changed so that beginning in the year 2000, owners of units purchased from a municipality will have the right to deduct the costs of renovation or modernization from their personal income tax, under the condition that the

money used for this purpose was earlier paid into a housing savings bank. It is expected that the number of households undertaking renovations and modernization of their units and buildings will increase dramatically as a result. This program is intended to assist those owners who want to improve their properties in the interim.

With only one known exception (PBG Bank in Lodz), commercial banks have not made loan offers to homeowner associations. Banks have problems with the lack of legal standing of homeowners' associations and are thus inclined to grant mortgage loans to the individual owners/members of the homeowners' associations. They are not disposed to give loans for the renovation of the common areas despite owners associations' attempts to promote this. This is not surprising given that homeowners' associations cannot provide legally binding guarantees. Municipal support in the form of a municipal guarantee for a homeowners' association loan may be called for.

In the event that the physical condition of a municipally owned or partly owned building causes safety and health hazards, the municipality cannot ignore the situation. However, there are no regulations that determine what the municipality must do in this situation, especially when the private owners cannot afford the repairs and will not be able to pay back their share of the costs to the municipality. Currently in Bielsko Biala, the municipality covers the cost of the renovation of buildings that pose health or safety hazards, funding the share of those private owners that cannot do so themselves. These apartment owners sign a contract with the municipality to pay back the money along with interest charges.

The proposed Homeowners Renovation Fund would be established to provide grants to the individual owners within homeowners' associations to be applied to capital costs of improvements, thereby decreasing the loan amount and, consequently, reducing the principal and interest payments of the borrower.

The capital grant would be given only for a renovation, modernization, or improvement of the common areas of the building, based on a list of repairs and expenditures that would qualify for the one-time assistance.

The grant could be paid directly from the *gmina* to the contractor as a fixed proportion of the renovation cost. It is proposed that this grant program be operational from 1998 to 2000.

Priority for receiving grants for the above-mentioned purposes should be given to owners who live in buildings that meet the following criteria:

- need renovation to repair structural damage causing a health or safety risk;
- need renovation as determined by the building department;
- need renovation to halt major deterioration of the building (e.g., roof repair); and
- where private owners and the Housing Association jointly support a renovation program.

From September 1997, people saving for a renovation or modernization in housing savings banks may, after a three-year period, get an attractively priced so-called contract loan. It is important to note that they can deduct from their taxes not just 19 percent (as in case of normal housing expenses), but 30 percent of the funds paid in for this purpose. Hence, it is anticipated that in



2000 the majority of funds in this program aimed at subsidizing renovations in mixed-ownership buildings will be spent.

There are 360 housing associations in Bielsko Biala, 26 of which have 50 percent or more private owners. Among them nine are managed by individuals. Analyzing some of those nine individually managed homeowners' associations — with an eye toward possible applicants for the program — showed the following.

Address	Units	Residents and Owners	Proposed Renovation
ul. Boh. Warszawy 12	6 total 2 municipal	can independently raise enough money for necessary renovations	roof renovation
ul. Zapolskiej 10	6 total 2 privately owned	mainly single people with low pensions, can only afford minimal maintenance	changing the roof providing perimeter rainwater drainage renovation of facade
ul. Chopina 11	4 total 1 municipal	2 owners are pensioners 1 owner obtaining avg. income	renovation of 600 m <sup>2</sup> of new metal roof covering, and covering with 2 layers of paint renovation of the monumental elevation of the building and repair work for the monumental fence are proposed
ul. Mickiewicza 13	13 total 3 municipal	each flat owner had to assemble the necessary financing, one owner who had insufficient cash and collateral to obtain a bank loan received financial aid from other owners	installing a new more efficient central heating system with metering if grant or subsidy is available, the association would build additional chimneys, ventilation, and exhaust flue pipes and shafts, and would install additional thermal insulation

The overall objective of this program is to offer an incentive to private owners in homeowners' associations, so that they can afford to participate in rehabilitation programs.

### 2.2.2 Program Implementation

The following steps will need to be taken to implement this program:

- promotion of the program to one or more banks and to homeowners' associations;
- identification of interested homeowners' associations;
- preparation of scopes of work and budgets for rehabilitation;
- identification of bank(s) willing to provide financing to private owners where necessary;
- involvement of *gmina*/program manager in the negotiation of the loan, seeking a loan contract between borrower (individual within an association) and lender (bank); *gmina* to cooperate with the lender;
- contract tendering and selection of a contractor for the works;
- signing of loan agreements and grant agreements by private homeowners; and
- monitoring of construction and payments by homeowners (cash and credit) and the *gmina* to contractors including grants to be paid by the *gmina*.

Implementation of the program should begin with a promotional effort making the apartment owners aware of the program and its requirements. This can be done through community meetings, the press, and information programs on local radio and television. Banks such as PKO BP Bank, which has given conceptual approval to the program, should be encouraged to support it.

Current and likely future owners of units should be encouraged to sign contracts with PeKaO SA, PKO BP, or Bank Slaski SA, establishing housing savings accounts aimed at financing future renovations of a house or an apartment. This recently approved program requires systematic savings over the course of at least three years before an application for a loan can be made. The interest rate on savings is equal to at least a quarter of the NBP rediscount rate, but not less than 2 percent annually. Contract loan interest rates are not higher than half of the NBP rediscount rate, but cannot be lower than 4 percent annually. The contract loan amount cannot be higher than 150 percent of savings plus interest. Apartment owners who save for the minimum of 36 months at the lowest possible level of 100 PLN monthly can get a contract loan of 5,400 PLN, which together with the savings and interest amounts to about 9,000 PLN.

If owners are made aware of the benefits of systematic saving in a housing savings bank and the subsequent possibility of obtaining a grant or interest-rate subsidy from the municipality, the objectives of the Renovation Fund will have been achieved.

A Renovation Fund Task Force Committee would supervise and monitor implementation of the program and control the use of its funds. The Committee would advise the applicant homeowners' associations on the gathering of relevant information concerning their projects and assist them in preparing applications for grants.

The Committee is to be headed by Vice-Mayor Krawczyk and assisted by Mr. Gerlach, head of the City Development Office and empowered this month to oversee the utilization of these funds. Other representatives on this committee would include:

- Economic Policy Department
- ZGM
- Urban Economy Department
- Social Welfare Department

The Committee should meet at least once a quarter to discuss the range of activities within its purview, which should include:

- monitoring of the number of projects and the grants approved and disbursed; and
- monitoring impact of the program on the level of housing rehabilitation activity.

The Housing Association Renovation Fund should continue beyond the Investment Plan period (after the year 2000), considering existing needs and assuming there are available resources. During the Investment Plan period, this program will meet some of the renovation needs until three years from now, when homeowners will be able to benefit from the Housing Savings Program.

### **2.2.3 Anticipated Social and Economic Benefits**

The potential social and economic benefits of the program include:

- stimulating renovation and modernization in the city, thus improving the condition of residential buildings, some of which currently pose health or safety hazards;
- improving building conditions to decrease current expenditures for utilities as a result of heating system improvements, insulation, and metering; and
- financial assistance from the city to make it easier for apartment owners to obtain and repay bank loans, thus encouraging them to make decisions to invest in renovations.

### **2.2.4 Financial Feasibility**

The analysis of the financial feasibility of Program 4 focuses on the four privately managed housing associations identified earlier. These four housing associations constitute a total of 29 units, of which 19 units or 65 percent are privately owned and 10 units or 35 percent are municipally owned. To project Program 4 expenditures, an average building size of 7 units was assumed, with 65 percent or 5 of these units being privately owned and 35 percent or 2 units being municipally owned. Based on the capital improvement needs of these four housing associations, an average renovation cost of 11,000 PLN per unit in 1997 was assumed. This renovation cost was inflated 18 percent in 1998, 16 percent in 1999, and 14 percent in 2000.

Program 4 expenditures would provide 25 percent of the renovation cost of the privately owned units in a direct grant to the individual owners. In the projections, 25 percent of their 65 percent portion of the total renovation cost — or 16 percent of the total renovation cost — would be granted to the private owners from Program 4 funds. In order to receive a Program 4 grant, each private owner would be required to contribute an additional 25 percent of their portion of the total renovation cost — or 16 percent of the total renovation cost — in equity. The remaining 50 percent of the privately owned renovation cost — or 33 percent of the total renovation cost — would be borrowed by the individual members of the homeowners' association from a local commercial bank at market rates of interest. Each private owner would be responsible for repayment of their respective renovation loan. Since the housing association contains municipally owned units, the ZGM would be responsible for providing their 35 percent of the total renovation cost for these units. The ZGM would most likely borrow these funds from the municipality apart from Program 4.

To date, very few private owners have raised the 25 percent equity required to proceed under Program 4. Therefore, only one housing association is projected to proceed with its renovations in 1997. As information is disseminated about the program, it is anticipated that more housing associations will be interested in participating in the renovation of their buildings. In addition, many private owners will be participating in the contract savings program, which requires a three-year savings period before a renovation loan can be borrowed. Therefore, the majority of the Program 4 renovations are projected to occur in 1999 and 2000 as the equity and loan funds accumulated under the contract savings program become available to housing associations.

Overall, it is projected that 29 housing associations will participate in the renovation of the common areas of their buildings. Based on the average number of units per housing association, approximately 203 households will benefit from these common area improvements. Over the four-year period, Program 4 expenditures will total 500,000 PLN, with accompanying interest of 155,544 PLN, for a total cost of 655,544 PLN based on the projected expenditure schedule and

interest rates on the municipal debt. The investment of Program 4 funds will not be recovered, as the funds will be granted to the housing associations. However, Program 4 will be leveraging approximately 84 percent of the total renovation costs, or more than five times the cost of the program. The renovations will improve the underlying property value of the housing associations, which will increase city revenues once the new law is implemented basing real estate taxes on actual assessed value.

### **2.2.5 Program Risks**

The biggest threat to the success of the program may be homeowners' fear of mortgaging their property, a legitimate concern.

Other risk factors are:

- a deeply rooted conviction that the municipality, not the owner, is responsible for renovation of housing (while owners usually defend very strongly their rights, it's much more difficult for them to accept their obligations);
- a high rate of construction-cost inflation relative to incomes; residential construction costs have recently risen at a rate higher than the average wage rate and that of the consumer price index;
- legal complications related to contracting and paying a contractor delay the program or make it unworkable.

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**PROGRAM 4 - Housing Association Renovation Fund**

Average Number of Units in Housing Association	7	
Average Number of Units Privately Owned	5	65%
Average Number of Units ZGM Owned	2	35%

		<u>Per Unit</u>	<u>% of Cost</u>
Average Total Cost of Renovation	77,000	11,000	100%
Loan to ZGM from Municipal Debt	26,950	3,850	35%
Equity Required from Private Owners	12,512	1,788	16%
Loan to Private Owners from PKO BP	25,025	3,575	32%
Program 4 Expenditures	12,512	1,788	16%

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>TOTAL</u>
Projected Number of Housing Associations	1	6	10	12	29
Projected Total Cost of Renovation	77,000	545,160	1,053,976	1,400,789	3,076,925
Projected Inflation Rate on Costs		18%	16%	14%	
<b>PROGRAM 4 EXPENDITURES</b>	<b>12,512</b>	<b>88,588</b>	<b>171,271</b>	<b>227,628</b>	<b>500,000</b>
Projected Number of Units	7	42	70	84	203
Program 4 Cumulative	12,512	101,101	272,372	500,000	
Projected Interest Rate on Debt	21.3%	21.3%	18.3%	16.3%	
Interest on Program 4 Cumulative	2,665	21,535	49,844	81,500	155,544
Program 4 Cash Flow Before Debt	0	0	0	0	
<b>PROGRAM 4 WITH INTEREST</b>	<b>15,178</b>	<b>110,123</b>	<b>221,115</b>	<b>309,128</b>	<b>655,544</b>

## **2.3 Program 5 — Fund for Improvement of Rent Collection**

### **2.3.1 Program Description and Objectives**

The establishment of the proposed Rent Collection Efficiency and Improvement Fund is not an investment, but rather a direct subsidy program. This program has been included in the Housing Investment Program because it should play a significant role in the process of improving rent collections in the face of significant annual rent increases proposed in the city of Bielsko Biala.

Rents for municipal housing and commercial units in Bielsko Biala are relatively low in relation to costs of management and maintenance. Consequently, the city needs to subsidize municipal housing stock management and maintenance. The opponents of increasing rents have always used the argument that municipal housing units are occupied by the poor, who are unable to pay higher rents, and that the case is the same for a significant number of the commercial units as well.

On the basis of our work, it is estimated that about 9 percent of the tenants of municipal apartments benefit from the system of housing allowances and an additional 6-7 percent of the tenants may have temporary problems with the full payment of increased rents. These latter tenants occupy apartments that are slightly too large to be granted a housing allowance.

Resources from the proposed fund will be used to grant a temporary allowance that will cover a portion (15-20 percent) of the increased rent amount and other payments related to apartment use.<sup>1</sup>

The reason for this targeted temporary housing allowance is to avoid unnecessarily subsidizing a much larger group of people, who are better off or even well off, when significant rent increases do occur.

The primary objective is to soften the impact of significant but necessary rent increases for those temporarily unable to pay them, so that ultimately tenants in communally owned housing pay full, or almost full cost, for the management and maintenance of their unit.

In general, this fund will be beneficial to the ZGM (or any other entity managing the housing stock) in that it will provide an incentive for tenants to pay the increased rents due. This instrument will also allow for short-term relief of those in need but do not quite qualify for housing subsidies. It also sets the stage for the transferring of non-paying tenants or those that cannot afford the new rents to smaller, less expensive units if their financial situation does not improve within a short time frame.

It is estimated that a total of PLN 50,000 earmarked for the fund will be spent by the end of December 1997. In 1998, 250,000 PLN will be spent, followed by 200,000 PLN in 1999 and 150,000 PLN in 2000. It is anticipated that each year, less funds from the program will be spent, as this fund is transitional in nature, targeted to be utilized during the period when the more aggressive rent increases are implemented — when the rate of rent increases will significantly exceed the anticipated inflation rate.

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<sup>1</sup> These housing allowances will be granted for a maximum of three to six months and no more than two or three times per household. The objective is to provide temporary assistance to those who should be able to pay the new rents and to prepare those tenants who are not able to pay for their housing units to move to smaller, less expensive apartments.

The base rent for communal housing is now PLN 1.04/m<sup>2</sup>. The weighted average is PLN .94/m<sup>2</sup>. For the program to be effective and to benefit the city as a whole and the ZGM in particular, the following rent increases have been proposed:

- 38 percent increase in September 1998 (from 1.30 PLN/m<sup>2</sup> to 1.80 PLN/m<sup>2</sup>);
- 33 percent increase in May 1999 (from 1.80 PLN/m<sup>2</sup> to 2.40 PLN/m<sup>2</sup>); and
- 33 percent increase in May 2000 (from 2.40 PLN/m<sup>2</sup> to 3.20 PLN/m<sup>2</sup>).

We believe that, in order to succeed, an aggressive rent increase program requires an assist from this program. During its four-year life, this 650,000 PLN program should contribute to the collection of an additional 12,000,000 PLN in rent revenues. The fund is projected to support increases in residential and commercial rent revenues by PLN 2.2 million by June 1998 and by PLN 2.5 million in the second half of 1998 and later.

### **2.3.2 Program Implementation**

The following steps are required to implement the program:

- establish the proposed task force that will oversee all of the programs under the Housing Sector Improvement Program;
- identify a unit within the ZGM and assign operational responsibility to it;
- prepare a local ordinance establishing the fund within the proposed new ZGM structure; current law does not allow for the creation of such a fund with a budgetary entity such as the ZGM of today, but once the ZGM is restructured into a private company after January 1, 1998, this will be possible; and
- establish tenant selection criteria and procedures for tenants to apply for the allowances.

### **2.3.3 Anticipated Social and Economic Benefits**

The program will begin to address the issue of overhoused tenants. Mismatches of unit sizes and household sizes are fairly common in Bielsko Biala. Once the *gmina* approves a new rent policy, the ZGM director has indicated that he intends to see to a better match of unit size, family size, and affordability. The allowance will help distinguish between tenants who have short-term financial problems and will eventually be able to pay the new higher rents and those that will not be able to once the term of the subsidy expires.

Social benefits will include the following:

- short-term financial assistance to households that have temporary financial problems or that have units that are slightly too large to qualify for traditional *gmina* housing subsidies; and
- possibility of improving the standard of living for a portion of the population with larger families who might move to larger units that have been vacated by smaller households that are overhoused and cannot afford the new rents.

Economic benefits will include the following:

- implementation of an economic rent policy; and
- improving the economic efficiency of the housing allocation system by better matching household size and affordability with unit size and cost.



### **2.3.4 Financial Feasibility**

The analysis of the financial feasibility of Program 5 focuses on comparing the projected increase in the rent collected from the communal housing stock with the implementation of Program 5 to two cases of the projected rent that would be collected without Program 5. The ZGM feels that, without Program 5, rents on the communal housing stock could only be increased at the projected rate of inflation, or slightly above, without severely hurting collections from its tenants.

With Program 5, it is projected that the ZGM will be able to implement aggressive annualized rent increases for the communal housing stock of 21 percent in 1997, 27 percent in 1998, 51 percent in 1999, and 33 percent in 2000. The projection of the annual rent collected with Program 5 also assumes modest increases in the net rentable area of the communal housing stock of 3 percent in 1998, 4 percent in 1999, and 2 percent in 2000. This is due to the ZGM assuming management of some privately owned units that have been abandoned by their owners. With Program 5 and its accompanying aggressive rent increases, the ZGM projects that the gross annual rent collected from the communal housing (Line 4) will increase by 31 percent in 1998, 57 percent in 1999, and 36 percent in 2000.

Under Case 1, rents on the communal housing stock without Program 5 are increased at the projected rate of inflation and are then compared with the increased rent collected with Program 5. The projected rate of inflation is anticipated to be 15 percent in 1997, 13 percent in 1998, 10 percent in 1999, and 8 percent in 2000. Applying these rent increases yields an amount of rent that would be collected without the implementation of Program 5 (Line 3 under Case 1). The projected increase in rent collected from the communal housing stock with Program 5 can then be calculated by subtracting the rent collected without Program 5 (Line 3 under Case 1) from the net annual rent collected with Program 5 (Line 7). This is the net benefit of implementing Program 5 and is essentially a measure of the additional rent collected with Program 5 after repayment of both the rental subsidy funds and accompanying interest.

Overall, Program 5 in Case 1 is anticipated to increase annual rent collected from the communal stock by PLN 12.9 million after repayment of the Program 5 expenditures plus interest. The leverage of Program 5 — that is, the net benefit of the program as compared to the program cost — ranges from a low of 2.7 in 1997 to 51.3 in 2000, with an average leverage ratio of 19.9 over the four-year period. In other words, under Case 1, if the ZGM can achieve the aggressive rent increases proposed with the implementation of Program 5, almost 20 times the cost of the Program 5 expenditures will be raised in additional annual rent collected from the communal housing stock.

Under Case 2, rents on the communal housing stock without Program 5 are increased above the rate of inflation and are then compared with the increased rent collected with Program 5. Multiples of the projected inflation rate are used as the projected rent increase rate — 1.20 in 1998 or 15.5 percent, 1.35 in 1999 or 13.5 percent, and 1.50 in 2000 or 12 percent.

Overall, Program 5 in Case 2 is anticipated to increase annual rent collected from the communal stock by PLN 11.8 million after repayment of the Program 5 expenditures plus interest. The leverage of Program 5 — that is, the net benefit of the program as compared to the program cost — ranges from a low of 2.7 in 1998 to high of 47.1 in 2000, with an average leverage ratio of 18.2 over the four-year period. In other words, under Case 2, if the ZGM can achieve the aggressive rent increases proposed with the implementation of Program 5, almost 18 times the

cost of the Program 5 expenditures will be raised in additional annual rent collected from the communal housing stock.

Under either case, Program 5 expenditures plus interest are entirely repaid from the increases in annual rent collected from the communal housing stock. In addition, 12.9 million PLN under Case 1 and 11.8 PLN million under Case 2 in net benefit — i.e., additional annual rent collected less repayment of Program 5 with interest — represents additional revenues to the ZGM that will be used to improve the physical condition and ongoing maintenance of its communal housing stock.

### **2.3.5 Program Risks**

The following risks to program implementation have been identified.

- The growth of the economy is slower than anticipated, and wage rate increases are lower than expected, making the payment of higher rents more difficult.
- The ZGM restructuring does not proceed, thereby making it difficult, if not impossible, to establish the fund in the ZGM.
- The needs of qualified households greatly exceed the resources earmarked for the program.
- Tenants physically or legally resist relocation to more affordable units.

INSERT PROGRAM5.XLS SPREADSHEET HERE

**PROGRAM 5 - Fund for Improvement of Rent Collections**

	TREND		TREND		TREND			
<b>PROGRAM 5-Rent Increases at Proposed Rates</b>	<b>1997</b>	<b>RATE</b>	<b>1998</b>	<b>RATE</b>	<b>1999</b>	<b>RATE</b>	<b>2000</b>	<b>TOTAL</b>
1. Projected Rent Increases with Program 5	as of 21% 8/1/97		27%		51%		33%	
2. Annual Rent Collected per m2	11.76		14.88		22.44		29.88	
3. Net Rentable Area of Communal Housing Stock (m2)	445,700	3%	460,000	4%	480,000	2%	490,000	
4. Gross Annual Rent Collected from Communal Housing Stock with Program 5 (Line 2 X Line 3)	5,241,432	31%	6,844,800	57%	10,771,200	36%	14,641,200	37,498,6
5. Program 5 Expenditures	50,000		250,000		200,000		150,000	650,00
6. Interest on Program 5 Expenditures	10,650	21.3%	53,250	21.3%	36,600	18.3%	24,450	16.3% 124,95
7. Net Annual Rent Collected from Communal Housing Stock with Program 5 (Line 4 - Line 5 - Line 6)	5,180,782		6,541,550		10,534,600		14,466,750	36,723,6

**CASE 1 - Rent Increases at the Projected Rate of Inflation**

1. Projected Rent Increases without Program 5	as of 15% 8/1/97		13%		10%		8%	
2. Annual Rent Collected per m2	11.32		12.40		13.07		13.83	
3. Gross Annual Rent Collected from Communal Housing Stock (Line 2 X Line 3 above)	5,046,300		5,702,300		6,272,600		6,774,400	23,795,6
4. Net Benefit of Program 5 (Line 7 above - Line 3)	134,482		839,250		4,262,000		7,692,350	12,928,0
5. Leverage of Program 5 (Line 4/Line 5 above)	2.7		3.4		21.3		51.3	19.

**CASE 2 - Rent Increases Above the Rate of Inflation**

Multiple of Inflation Rate	0		1.20		1.35		1.50	
1. Projected Rent Increases without Program 5	as of 15% 8/1/97		15.5%		13.5%		12%	
2. Annual Rent Collected per m2	11.32		12.67		13.78		15.12	
3. Gross Annual Rent Collected from Communal Housing Stock (Line 2 X Line 3 above)	5,046,300		5,828,500		6,615,300		7,409,200	24,899,3
4. Net Benefit of Program 5 (Line 7 above - Line 3)	134,482		713,050		3,919,300		7,057,550	11,824,3
5. Leverage of Program 5 (Line 4/Line 5 above)	2.7		2.9		19.6		47.1	18.

## **2.4 Program 9 — *Gmina* Land Purchase and Sale Program**

### **2.4.1 Program Description and Objectives**

A City Development Strategy approved by city council resolution on December 5, 1995 cited housing development as one of the city's most urgent priorities.

The availability of serviced residential land for housing development is the very first requirement for increasing housing production by all types of developers. Affordable, serviced plots are particularly important to the growing number of individual households who want to build their own home.

The city currently owns about 10,000 communal units or about 20 percent of the total housing stock. The demands for new housing to meet the needs of new households and to replace substandard units are likely to increase substantially in the near future as market forces come into play, household incomes rise, and people's housing aspirations change.

The city's housing policy cites the need for about 900 new housing units to be built each year until the year 2015. This level of production is considered necessary to respond to newly emerging housing needs and to eliminate the current "deficit" due to poor housing conditions. The housing policy has set a target of approximately 500 units to be built per year during the 1996-2000 period.

The availability of serviced land affordable to a wide range of households is one of the very first requirements to meeting the city's housing objectives. All of these housing sites should have access to basic infrastructure and municipal services. The Housing Strategy estimated that roughly 90,000 square meters (nine hectares) of new residential land will need to be developed each year for the next four years. This annual requirement can be broken down by type of housing developer, as shown in the following table.

**Demand for Serviced Land by Type of Construction per Year**

<b>Type of construction</b>	<b># of hectares</b>
Cooperative housing (single- and multi-family units)	0.75
Private sector housing (mainly single-family houses)	6.5
Communal housing (multi-family units)	1.0
TBS rental housing	0.35
TBS housing under the revolving fund	0.4

This component of the city's 1997-2000 non-budgetary Housing Investment Program involves the strategic purchase and sale of land by the city. Successful implementation of this component will contribute to the establishment of a flexible, consumer-oriented approach to land management that is based on rapid and transparent administrative processes and will lead to the orderly and integrated development of residential land markets throughout the city. The purchase and sale of land by the city will focus on activating local land markets, increasing efficiency and equity in the provision of affordable land for housing to all income groups, and targeting specific land resources directly to low- and moderate-income households.

The basic objectives of this program will be to:

- outline an action investment plan for land acquisition and sale to be included in the city's Housing Investment Program for the next four years;

- establish a sustainable land acquisition and development strategy for the city based on optimizing the use of available resources and opportunities;
- stimulate the provision of land for residential development to benefit all income groups;
- strengthen local institutional capacities to implement a sustainable land management and development approach;
- leverage city resources to mobilize private sector investment in the provision of serviced land and housing for low and moderate income groups;
- establish public-private sector partnerships that will reduce delays, risks, and costs to private sector housing producers and provide greater opportunities for the city to achieve its housing objectives;
- provide small-sized plots for low- and moderate-income households wishing to build affordable housing units using simple, traditional building technologies; and
- provide land for apartment buildings to be financed through the TBS program.

#### **2.4.2 Program Implementation**

The proposed program will have three major components: 1) the purchase of unserviced, residential land, 2) the sale of serviced land, and 3) the implementation of public-private sector partnerships for the development of residential land.

The amounts of funds earmarked for land purchase by the city under this program have been set at PLN 500,000 for 1997 and PLN 300,000 for 1998. The sale of centrally located, city-owned sites at market prices will generate revenues that will enable the city to establish a revolving fund for residential land purchase and servicing that will support the implementation of its recently adopted housing policies.

Two basic approaches to the city's purchase of unserviced land are envisaged under this program. They include the purchase of unserviced, residential land that has been reclaimed by private owners who now want to sell the land back to the city at below-market prices and the purchase of low-cost but suitably located land for residential development to benefit low- and moderate-income families.

Three different approaches are envisaged for the sale of city land: the sale of centrally located, infill sites at maximum prices; the wholesaling of large, partially serviced plots to various types of housing developers; and the sale of small-sized plots to individual households for owner-builder construction. An example of a project involving the sale of small-sized plots is shown in the following table.

Placeholder for Table 1

# PROGRAMS 9 AND 10

## FINANCIAL ANALYSIS OF THE RESIDENTIAL LAND PURCHASE AND INFRASTRUCTURE PROGRAMS

RESOURCES											
LOAN AMOUNT	Term in Years	Interest Rate	Amount X 1000	% Loan Disbursed by Year				PLN Amount by Year (X 1000)			
				1	2	3	4	1	2	3	4
Land Purchase	10	23	800	63	0	37	0	504	0	296	0
Infrastructure	10	23	2000	0	50	50	0	0	1000	1000	0
<b>Total Loan</b>			<b>2800</b>	<b>18</b>	<b>36</b>	<b>46</b>	<b>0</b>	<b>504</b>	<b>1000</b>	<b>1296</b>	<b>0</b>
LAND SALE Site	M2 Sold	Average PLN/m2	Tot. PLN X 1000	% Sales by Year				PLN Amount by Year (X 1000)			
				1	2	3	4	1	2	3	4
Ul. Wits Stwosza 33	1719	70	120	0	50	20	30	0	60	24	36
Ul. Michalowicas 19a	2625	125	328	50	50	0	0	164	164	0	0
Gm. Kat. Kamienica	84500	60	5070	0	20	35	45	0	1014	1774	2282
Gm. Kat. Wapienica	78000	80	6240	0	15	35	50	0	936	2184	3120
Sites and Services	19500	60	1170	0	25	25	50	0	292	292	585
<b>Total Sales</b>	<b>186344</b>	<b>69</b>	<b>12928</b>	<b>1</b>	<b>19</b>	<b>33</b>	<b>47</b>	<b>164</b>	<b>2467</b>	<b>4275</b>	<b>6023</b>
EXPENDITURES											
LAND PURCHASE Site	M2 Bought	Average PLN/m2	Tot. PLN X 1000	% Bought by Year				PLN Amount by Year (X 1000)			
				1	2	3	4				
Gm. Kat. Kamienica	41000	20	820	25	30	45	0	205	246	369	0
Gm. Kat. Wapienica	60000	20	1200	0	25	75	0	0	300	900	0
Sites and Services	30000	10	300	80	20	0	0	240	60	0	0
<b>Total Land Purchase</b>	<b>131000</b>	<b>18</b>	<b>2320</b>	<b>19</b>	<b>26</b>	<b>55</b>	<b>0</b>	<b>445</b>	<b>606</b>	<b>1269</b>	<b>0</b>



INFRASTRUCTURE Site	M2 Serviced	Average PLN/m2	Tot. PLN X 1000	% Service d by Year				PLN Amount by Year (X 1000)			
				1	2	3	4				
Gm.Kat.Kamienica	130000	30	3900		25	25	50	0	975	975	1950
Gm.Kat.Wapienica	120000	30	3600		15	25	60	0	540	900	2160
Sites and Services	30000	50	1500		25	40	35	0	375	600	525
<b>Total Infrastructure</b>	<b>280000</b>	<b>32</b>	<b>9000</b>	<b>0</b>	<b>21</b>	<b>28</b>	<b>52</b>	<b>0</b>	<b>1890</b>	<b>2475</b>	<b>4635</b>
<b>FINANCIAL FEASIBILITY</b>											
CASH FLOW	M2 Serviced	Average PLN/m2	Tot. X 1000					PLN			
				1	2	3	4				
Resources/Revenues	<b>186344</b>		<b>15728</b>	4	22	35	38	668	3467	5571	6023
Expenditures			<b>11320</b>	4	22	33	41	445	2496	3744	4635
Project Cash Flow			<b>4408</b>	5	22	41	31	223	971	1827	1388
Interest Repayment			<b>860</b>	12	34	43	10	107	296	368	90
Principal Repayment			<b>2800</b>	4	24	52	20	116	675	1459	550
Net Cash Flow			<b>748</b>	-52	-95	-74	100	-388	-713	-550	748
Cumulative Cash Flow								-388	-1102	-1651	-903
IRR Analysis								-445	-254	507	1352
	PROFIT ABILITY			RATES OF RETURN			MULTIPLIER EFFECTS				
	Profit X 1000	% Profit on Sales	% Profit on Equity	Discount Rate(%)	FIRR	IRR on Equity	M2 Const. /M2 Land	Const. Cost/M 2	Priv. Inv. X 1000	% Labor Cost	Person Years
	419.5	3	94	23	51%		0.6	1000	111806	14	2174

The third land management component of this program involves the development and implementation of various forms of public-private sector partnerships and land re-parcellation. The implementation of public-private sector partnerships will increase the city's ability to act as a catalyst in promoting desired residential development. Partnership arrangements will need to be determined by the city and participating landowners through negotiations. Various forms of partnership could be pursued that might include:

- requiring landowners to pay the actual costs of infrastructure provided to their sites once these areas have been subdivided and are in the process of being sold; and
- implementing a traditional re-parcellation approach that determines the value of unserviced land at the time of partnership, multiplies this value by the size of existing parcels to establish a total "credit" for each landowner, and then divides this credit by the value of the serviced land to determine the amount of re-subdivided land to which the landowner would be entitled; the city would then be able to sell the remainder of the land to help pay for the cost of infrastructure.

The various forms of partnership arrangements should be formulated to encourage broad private sector participation, reduce risks and costs to the different parties, and allow land markets to operate in a freer manner. Joint development can be an effective mechanism for the city to induce the private sector to implement its land development goals without having to expend a large amount of its own limited capital.

### **Implementation Responsibilities**

The city should establish an informal Land Working Group to oversee and monitor the implementation of this program and the general effectiveness of the city's evolving approach to residential land management. This working group should be directed by the city's first vice-mayor and include permanent representatives from the Land Development Department, Urban Management Department, and Economic Policy Department. Sub-units within each of these major departments will have specific responsibilities related to the management and development of residential land and to the land purchase and sale program. The City Development Office, the Road Management Department, and the utility companies for water and wastewater and heating distribution will participate in the working group through their existing relationships with the three main departments in the working group.

The Land Working Group should meet at least once every quarter to discuss the status of the city's land management program and to prepare necessary documentation for the Executive Committee and/or City Council. Group meetings will also provide a means to maintain close communication and coordination among all parties involved in the program, without having to make any major changes in the city's administrative organization.

### **Anticipated Time Frame**

This land purchase, servicing, and sale program should be designed to be financially sustainable and partly self-financing over the next four years. Program implementation will consist of the following.

- The sale of the centrally located, Michalowicsa site should take place as early in the program as possible. The revenue from the sale of this site is needed to reduce the level of borrowing during the first two years of the program, when projects are just getting under way.

- The purchase of a significant amount of land within the Kamienica site should be completed within the first two years of the program. The *gmina* should also develop a partnership approach to include those landowners in the area who want to keep their land but are willing to work with the city in developing the area.
- The auction of developer-oriented sites in Kamienica should begin in the second year of the program. Some of these sites could be auctioned prior to the installation of infrastructure in order to confirm that land sales will in fact cover the cost of infrastructure and land purchases.
- The purchase of a three-hectare site for the development of low-cost plots should be completed within the first 18 months of the program. The servicing and marketing of this site should be implemented at the same time. Advance payments from plot purchasers will help to improve the cash flow for this activity and for the overall program.
- The purchase of land in the Wapienica site should be completed by end of the third year of the program.
- Roughly one-half of the infrastructure required for the selected sites should be in place by the end of the third year of the program. All of the infrastructure should be completed by the end of the fourth.

### **2.4.3 Anticipated Social and Economic Benefits**

A number of benefits can be expected from the successful implementation of the land purchase and sale program.

Positive social impacts would include the following:

- creation of viable neighborhoods;
- increase in the social value of private property;
- greater satisfaction with housing and neighborhood conditions;
- greater pride and participation in the community; and
- greater reliance on negotiation and democratic processes in city development.

Positive economic impacts would include the following:

- increase in private property values;
- increase in long-term city revenues from property related fees and taxes;
- creation of employment opportunities in small-scale construction; and
- creation of new small-scale enterprises and commercial activity.

The spreadsheet on page 34 shows the program's economic multiplier effects on private sector housing investment and employment. Based on a ratio between built area and land of 0.6, an average cost of construction of PLN 1000 per square meter, a 14 percent share of construction costs for labor, and an average worker's salary of PLN 600 per month, the results show:

- a total private sector investment of PLN 111,806,000 for the construction of housing on land developed by the program; and
- a total of 2,174 person-years of work (or 545 jobs over the four-year period) generated by this construction; this result does not include jobs related to the provision of infrastructure

that would add significantly to the number person-years of work and jobs created by the program.

#### **2.4.4 Financial Feasibility**

The financial feasibility analysis assumes that all available land within the first three sites will be developed and sold by the end of the fourth year. This perspective is largely due to the fact that the period of analysis has been limited to the first four years of the program. In reality, additional land will be bought, serviced, and sold as part of an ongoing process.

A relatively simple and straightforward analysis has been developed to review the financial feasibility of the combined programs for land purchase/sale and infrastructure. The two programs are analyzed together because: 1) the provision of residential infrastructure has a significant impact on the market value and sales price of the land and 2) the sale of land at market prices will provide the major mechanism for the recovery of infrastructure costs. The analysis covers the four-year period from 1997 through 2000.

Financial resources for the combined programs include funds from the loan, revenues from the sale of selected, city-owned infill plots, and revenues from the sale of serviced residential land developed through the program. Long-term city revenues from taxes, utility payments, and other fees and charges have not been considered in the analysis at this time. Program expenditures in the analysis include the costs of buying unserviced land, the costs of providing infrastructure, and the city's repayment of the loan. Barring any major delay or difficulty, it should be possible to achieve the results indicated in the spreadsheet on page 34.

Funds from the line of credit to be used for land purchase and infrastructure development have been defined in the Housing Investment Program. Revenues from residential land sales could also be used to finance additional land purchase and infrastructure to the extent that these funds become available and are not used to repay the credit line. Loan repayments have been calculated to cover the amount of loan funds used for the two programs. Additional program costs will include marketing and transaction costs (e.g. surveys, bids, competitions, etc.), staff, and logistic support. These indirect costs are assumed to be financed through the city budget.

Page 34 presents a simple feasibility analysis of the combined land purchase and infrastructure programs. It outlines a basic scenario for program implementation and its cash flow that should ensure the program's financial feasibility. The yearly indications for land purchase, infrastructure provision, and sale of land should be viewed as specific targets to be achieved to maintain this feasibility.

Financial resources that are used to initiate the land purchase program include:

- an injection of PLN 2,800,000 from the loan for both land purchase and infrastructure; and
- an estimated PLN 448,000 from the sale of two centrally located, city-owned sites at market prices.

Placeholder for Table 2

MASTER: Developer: _____		_____		_____		_____		Date: _____	
LAND USE CHARACTERISTICS									
Site area in hectares		_____		Non-developable area in m2		_____		Developable area in m2 30000	
Cultural facilities	Net area in m2	Sales price/ m2	Commercial facilities in m2	Net area in m2	Building Cost/ m2	Sales price/ m2	Net residential area in m2	_____	
							from program or measured from plans		
Schools	_____	_____	Retail sales	2500	_____	120	Non-marketable land	%	m2
Health	_____	_____	Bulk sales	_____	_____	_____	Circulation areas	20.00	6000
Mosques	_____	_____	Crafts	_____	_____	_____	Parking areas	_____	0
Admin.	_____	_____	Services	_____	_____	_____	Green spaces	_____	0
Sport	_____	_____	Other	_____	_____	_____	Public spaces	3.00	900
Total	0	0	Total	2500	0	300	Total	23.00	6900
M2									
Non-residential land		3247		M2 total residential land		26753		M2 net residential land 20600	
LAND AND INFRASTRUCTURE COSTS									
				Land price	Site prep.	On-site infras tr.	Off-site infras tr.	Other costs	
Basic development costs				8.00	3	30	_____	_____	
Contingencies and unforeseens (%)				5		10	_____	_____	
Fees and supervision (%)						5	_____	_____	

[illegible]

Sales price/unit			6227						1868
	88342	3	0	0	0	0	0		9
						RAT E OF RET URN			
PROJECT COSTS	X100 0	%	REVENUES	X100 0	%				
Land	252	4.24	Housing units	5695	95.00	Year	% Exp.	% Rev.	
Infrastructure	1130	19.02	Facilities	300	5.00	1	40	10	-1776.39 076
Construction	4558	76.74	Total project	5995	100.0 0	2	25	25	13.85243 859
Housing	4558					3	20	30	610.6001 727
Facilities	0					4	15	35	1207.347 907
Developer profit							% IRR		
Total project	5940	100.00		55	0.93			1.17	
AFFORDABILITY									
	Type #1	Type #2	Type #3	Type #4	Type #5	Type #6	Type #7	Type #8	
Downpayment	40	40						40	
Yearly interest rate	28	28						28	
Repayment period	8	8						8	
Monthly payment	1388	979	0	0	0	0	0	294	
Ratio to monthly income	40	40						40	
Required monthly income	3471	2447	0	0	0	0	0	734	



The sale of city-bought and -serviced residential land, both as large parcels auctioned to developers and as small-sized plots offered to individual households, is expected to generate an additional PLN 12,480,000 based on current land prices in the areas of program activity. The combined total for resources and revenues related to the program is expected to be PLN 15,728,000.

Expenditures under the proposed scenario will include the purchase and servicing of land within well-defined areas in Wapienica and Kamienica, the purchase and servicing of a three-hectare low-cost site in the northern part of the city, and repayment of loan funds related to land purchase and infrastructure. Total land purchase costs for all three sites are estimated to be around PLN 2,320,000, while infrastructure costs for the same sites are estimated to be around PLN 9,000,000. These infrastructure costs do not include the servicing of fully owned private land within the proposed sites. The repayment of loan funds (both interest and all of the principal) related to this part of the program will be around PLN 3,660,000 for the four-year period.

The cash flow for the project shown on page 34 has been designed to take advantage of the anticipated interest rate decreases over the next four years. Both interest and full amount of principal will be paid at the end of each year. A new borrowing will be made at the beginning of the subsequent year for any deficit and the scheduled amount. While this approach may increase some of the transaction costs, the essential act of “refinancing” the loan on an annual basis will reduce the amount of interest to be paid and increase the surplus or amount of “profit” at the end of the four-year period.

The potential rate of return for the combined program is 51 percent (see the table on page 30).

The combined land purchase and infrastructure program will generate a small profit of some PLN 748,000 over the first four years of the program. This profit would normally be used to purchase additional land. It is 6 percent of the total sales and 167 percent of the city’s equity in the program, which is taken to be the revenues from the sale of the two infill properties.

The financial internal rate of return has been calculated for the purchase/servicing/sale of residential land under the program. The cash flow used in this analysis does not include loan funds or repayments or the city’s equity contribution to the program. A rate of return of 51 percent is obtained.

#### **2.4.5 Program Risks**

There are several major risks that could jeopardize the success of this program. The most obvious risk is that the city will not be able to purchase, service, and sell the land as planned, either in terms of the amount of land that can be developed and sold or in the timing of these sales. Private land owners may not be willing to sell their land to the city or may not be interested in participating with the city in any form of joint land development. The lack of participation by private landowners could effectively block the development and sale of adjacent, city-owned land. There is also the risk that new or additional claims will be made on land that currently belongs to the city or is in the process of being purchased.

The very limited understanding of market-driven housing demand is another potential risk to the program. Many people, in fact, are still waiting to obtain a subsidized housing unit from the *gmina*. The relatively small size of the city’s housing market encourages a high degree of caution

in initiating new developments. All major housing providers can suffer serious financial losses if they miscalculate the housing market and/or the demand for different types of units. The result may be an initial lack of developer interest or capacity to purchase blocks of land and/or implement the program according to the proposed timetable.

The general lack of experience during project implementation presents another form of risk for private developers who cannot afford major cost overruns due to unexpected delays in the approval process, dramatic changes in the price of building materials, and so on.

## **2.5 Program 10 — Infrastructure for Residential Land**

### **2.5.1 Program Description and Objectives**

A City Development Strategy was approved by city council resolution on December 5, 1995. It cited housing development as one of the city's most urgent priorities.

The availability of serviced residential land for housing development is the very first requirement for increasing housing production by all types of developers. Affordable, serviced plots are particularly important to the growing number of individual households who would like to build their own houses.

Making affordable serviced land available to a wide range of households is the very first step in attempting to meet the city's housing objectives. All sites for new housing should have access to basic infrastructure and municipal services. The housing strategy estimated that roughly 90,000 square meters (nine hectares) of newly serviced residential land would be needed for each of the next four years. This annual requirement for serviced land has been broken down by type of housing developer on page 28 under Program 9.

This component of the city's 1997-2000 non-budgetary Housing Investment Program involves the provision of basic infrastructure for residential land. It is linked in all its aspects with the residential Land Purchase and Sale Program, Program 9. Its successful implementation will contribute to the establishment of a flexible, market-oriented approach to residential land development that will make serviced land for new housing construction accessible to all income groups. The city's servicing of this land will dramatically increase efficiency and equity in the overall provision of residential land for housing and in the targeting of specific land resources to benefit low- and moderate-income households. The basic objectives of this program are similar to those in Program 9.

- Outline an action investment plan for residential infrastructure to be included in the city's Housing Investment Program for the next four years.
- Establish a sustainable land development strategy for the city based on optimizing the use of available resources and opportunities.
- Stimulate the provision of serviced land for residential development to benefit all income groups.
- Strengthen local institutional capacities to implement a sustainable land management and development approach.
- Leverage city resources to mobilize private sector investment in the provision of serviced land and housing for low- and moderate-income groups.

- Establish public-private sector partnerships that will reduce delays, risks, and costs to private sector housing producers and provide greater opportunities for the city to achieve its housing objectives.
- Provide infrastructure services to small-sized plots for low- and moderate-income households wishing to build affordable housing units using simple, traditional building technologies.
- Provide serviced sites for apartment buildings to be financed through the TBS program.

### **2.5.2 Program Implementation**

The amounts of funds earmarked for the provision of basic residential infrastructure under this program have been set at PLN 1,000,000 for 1998 and an equal amount for 1999. This infrastructure program will be implemented in tandem with the Land Purchase and Sale Program. Financial resources for both programs will be combined in a revolving fund that will be used to purchase and service new residential land in support of the city's newly adopted housing policies.

The proposed program will have two major components. The first involves the provision of basic infrastructure for project-sized parcels to be sold to developers who will develop the on-site infrastructure and housing units. The second involves the provision of residential infrastructure related to the provision of small-sized plots affordable to low- and moderate-income groups.

#### **Servicing of City-Owned Land to be Sold in Project-Sized Parcels to Developers**

This residential infrastructure program involves providing infrastructure services to project-sized plots ranging in size from one to two hectares. These sites will be auctioned and sold to developers to develop the on-site infrastructure and the housing units. The city will provide an estimated 120 linear meters of network per hectare for each infrastructure component, including roads, water supply, sewerage, drainage, and electricity. The estimated total cost of this essentially off-site infrastructure would be around PLN 30 per gross square meter of site. Developers would provide the tertiary infrastructure within each project and recover the costs from sales.

#### **Servicing of City-Owned Land to be Sold as Small Plots to Individual Households**

The second component of this infrastructure program involves the servicing of small-sized plots to be sold to low- and moderate-income households. Typical plot sizes for these city-owned sites would range between 150 and 300 square meters. The estimated average cost to fully service these sites would be around PLN 50 per gross square meter of site. These costs would be based on a circulation area that would cover less than 25 percent of site area and at least 65 percent of the site to be marketable and sold.

#### **Public-Private Sector Partnerships**

A third component under this program would involve privately owned land that would be serviced for residential development through various forms of public-private sector partnerships. Since substantial areas of land have now been returned to their former private owners, it is imperative that the city seek to develop effective partnerships with these land owners to stimulate the development of key land areas of the city. The city and private landowners will negotiate the specific partnership arrangements through which to provide residential infrastructure. Various forms of partnerships could be pursued that have been described in Program 9, page 28.

Various forms of partnership arrangements should be formulated and tested out to encourage broad private sector participation in the provision of residential infrastructure. In addition, partnership approaches would help reduce the risks and costs to different parties while encouraging residential land markets to operate as freely as possible. Such joint development can be an effective mechanism for the city to induce private sector investment and participation in the provision of residential infrastructure.

### **Implementation Responsibilities**

The intimate relationship between the Land Purchase and Sale Program and the Residential Infrastructure Program require that they be implemented together. The Land Working Group will oversee and monitor the implementation of this program as well as the general effectiveness of infrastructure provision on housing conditions and urban growth. The working group will be led by the city's first vice-mayor and will include permanent representatives from the Land Development Department, the Urban Management Department, and the Economic Policy Department. Sub-units within each of these major departments will be given specific responsibilities related to the management and development of residential land and to the land purchase and sale program. The City Development Office, the Road Management Department, and the utility companies for water and wastewater and heating distribution will participate in the working group through their existing relationships with the three main departments in the working group.

The Land Working Group should meet at least once every quarter to discuss the performance of the city's land management approach and to prepare necessary documentation for review by the Executive Committee and/or City Council. Group meetings will also provide a means to improve communication and coordination between all parties involved in the program. There should be little or no need to make any major changes in the city's administrative structure or organization at this time.

### **Anticipated Time Frame**

The overall land purchase, servicing, and sale program should be designed to be financially sustainable over the next four years. It is one of the proposed programs that has the possibility of being partly self-financing if implemented as proposed. Program implementation will consist of the tasks noted in the description of the Land Purchase and Sale Program.

### **2.5.3 Anticipated Social and Economic Benefits**

A number of benefits can be expected from the successful implementation of this program. They have been included in the Land Purchase and Sale Program section.

### **2.5.4 Financial Feasibility**

The financial feasibility analysis assumes that all available land within the three sites will be serviced and sold by the end of the fourth year. While this timeframe is realistic for the selected sites included in the analysis, it does not consider the additional land that will be bought, serviced, and sold as part of any ongoing process.

A relatively simple and straightforward analysis has been developed to review the financial feasibility of the combined programs for land purchase/sale and infrastructure. The two programs are implemented and analyzed together because: 1) the provision of residential infrastructure has

a strong impact on the market value and sales price of the land and 2) the sale of land at market prices will provide the major cost recovery mechanism for infrastructure. The analysis covers a four-year period from 1997 to 2000, and it is included in the section on Land Purchase and Sale.

Financial resources for the combined programs include funds from the loan, revenues from the sale of a small number of city-owned, infill sites, and revenues from the sale of serviced residential land developed through the program. Long-term city revenues from taxes, utility payments, and other fees and charges have not been considered in the analysis at this time.

Program expenditures in the analysis include the costs of buying unserviced land under the Land Purchase and Sale Program, the costs of providing infrastructure under this Residential Infrastructure program, and the city's combined repayment of the loan for the two programs.

Funds from the loan to be used for infrastructure development have been defined in the Housing Investment Program. These funds should be adequate to initiate the program. To the extent that they become available, revenues from residential land sales will also be used to finance the provision of additional infrastructure. Loan repayments have been calculated to cover the amount of loan funds used for the combined Land Purchase and Infrastructure Programs. Additional program costs, or indirect costs, will include marketing and transaction costs (e.g. surveys, bids, competitions, etc.), staff, and logistics support. These indirect costs are assumed to be financed through the city budget.

The spreadsheet on page 34 presents a simple feasibility analysis of the combined land purchase and infrastructure programs.

### **2.5.5 Program Risks**

These have been described under the Land Purchase and Sale Program (2.4.5).

## **2.6 Program 11 — Adaptation of Units for Temporary Relocation Housing**

### **2.6.1 Program Description and Objectives**

The Adaptation of Units for Temporary Relocation Housing is another one of the programs analyzed under the Housing Sector Investment Program in Bielsko Biala. It is closely associated with Programs 1, 2, and 12. The purpose of this program is to provide an adequate amount of rotational and substitute units in the city, to permit temporary and permanent relocation of tenants in buildings where renovation and revitalization activities are to be undertaken. The program is also to be funded from the line of credit. The program was earmarked for 1,520,000 PLN in expenditures in the years 1997-2000.

There are very few vacancies in the communal housing stock of the city of Bielsko Biala and therefore the *gmina* is desperately short of temporary and permanent relocation units. This is the cause of many problems in terms of administering, maintaining, and renovating the existing housing stock. Simultaneously, some of the remaining state-owned industries in the city are in bankruptcy, and the *gmina* is taking over their assets. These assets, in many cases, are simply an eyesore and are not presently being adapted for alternative uses by the city. An attempt to sell one of these factories in the city failed, as the bids that did come in, according to the city, were much too low. Some of these sites, however, are in attractive neighborhoods (downtown, along shopping routes, etc.) and may in fact be suitable for reuse or redevelopment. The process of transferring ownership from the state to the municipality (communalization) of some of these

properties is under way. The original structures are typically very sound, and their open plan design lends itself to subdivision by the construction of lightweight partitions. Per square meter costs to convert these buildings for residential use are thus much lower than for new units. One such building has been identified and evaluated and is treated as an example for this analysis.

### Example Project

Location:	Downtown area, medium to high density where some similar buildings have been adapted for office/commercial use
Owner:	City of Bielsko Biala
Lot size:	776 m <sup>2</sup>
Area of Construction (building footprint):	671 m <sup>2</sup>
Net usable area:	2,538 m <sup>2</sup>
Building volume:	13,550 m <sup>3</sup>
Year constructed:	1910
Number of floors:	4 (3 stories + basement)
Original use:	Textile mill
Construction:	Masonry, load-bearing construction
Parking:	No existing on site parking
Access:	Somewhat restricted, access from rear
Infrastructure:	Lot line hook-up to all city utilities

### Proposed Building Program

Ground floor:	Commercial/retail, total area = 460 m <sup>2</sup> . Three commercial units for lease
1st floor:	Apartment units with a total area of 340 m <sup>2</sup> . Due to clear heights on this floor (4.20 m), there is the possibility of some two-story unit solutions. Thus, scheme I envisions 21 units, scheme II, 24 residential units.
2nd and 3rd floor:	Units total area 680 m <sup>2</sup> . Floor to ceiling ht. = 3.50m.
Basement/Lower level:	Commercial/ retail, total area = 460 m <sup>2</sup> . Two commercial units.

The objectives of the program are:

- to increase the amount of temporary and permanent relocation housing units by adapting an building, which is owned by the city;
- to assist the implementation of complementary programs: Programs 1 — Revitalization of the Old Town, Program 2 — Communal housing stock upgrade, and Program 12, Rehabilitation/Adaptation of Ground Floor Units for Commercial Use; and
- to provide sufficient vacancy in the housing stock so that a better match between housing affordability and unit size can be achieved.

### 2.6.2 Program Implementation

The program will be implemented in the following phases.

- Identifying appropriate existing industrial/commercial buildings for conversion
  - Perform an as-built technical evaluation of the premises
  - Prepare inventory drawings
  - Communalization or purchase of the buildings (if required)
  - Develop preliminary designs and cost estimates to assess feasibility

- Preparation of the project
  - Prepare final design and technical documentation of the conversion works
  - Obtain approvals for infrastructure hook-ups and usage
  - Obtain zoning (master plan waiver for change of use) and building permit
  - Undertake competitive bidding, per rules and regulations of the Public Procurement Act
- Construction works
- Occupancy

The program will be implemented by the ZGM, with the Task Force responsible for management oversight. The investment earmarked for this program is shown below.

1997	420,000 PLN
1998	450,000 PLN
1999	350,000 PLN
2000	300,000 PLN
Total for years 1997-2000	
<b>1,520,000 PLN</b>	

The source of program funding will be the commercial bank line of credit. During 1997-98, the program would convert the industrial building located at 1st of May Street 20.

Two alternate scenarios are envisioned for this conversion:

- constructing 24 rotational units (one- and two-room flats) as well as five commercial units;  
or
- constructing 21 replacement units (two- and three-room) with five commercial units.

The difference between rotational or temporary units and replacement or permanent units is that the level of finishing is higher with the latter. Other industrial buildings will be identified in the future, based on the experience obtained from this conversion.

As mentioned, the Task Force will monitor the implementation program. This group will consist of representatives of City Hall, involved in planning, representatives of the *gmina* asset management group, the city development office, as well as Housing Management (ZGM) representatives. The coordinator will be Vice-Mayor Krawczyk, though it might make more sense to hire or assign a full-time coordinator for the implementation phase, equipped with appropriate decision-making authority, to move the process forward more efficiently.

The overall program time frame is 1997-2000. The adaptation of this building for residential/commercial use should take 10-18 months, depending on factors cited in Program 2. Of this, it will take 5–7 months to prepare the project and 5–11 months for construction. In future adaptive reuse projects, this time frame might be longer, depending on the ownership/communalization status of each industrial building envisioned for adaptation.

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### 2.6.3 Anticipated Social and Economic Benefits

- alleviation of the desperate shortage of relocation housing; and  
downtown and Old Town enhancement through visible improvement of buildings in pre-

The economic benefits of the program are:

- *gmina*-held assets;  
increase in revenues generated by the ZGM or other property administrator;
- 
- expansion of commercial tax paying property.

#### Financial Feasibility

The industrial building — ul. 1 Maja 20 — into either rotational housing units, Case 1 or substitute units, Case 2. The city will decide on the selection of either rotational or substitute housing tenants who have been temporarily relocated due to the rehabilitation of their existing rental units, as in Program 2. Substitute housing units will be used as permanent housing for tenants permanently Program 12 or, as a result of their inability to pay the increased rents on their previous larger unit,

Construction is anticipated to commence in March 1998 and will take a year to complete. The will create either 24 rotational housing units in Case 1, or 21 substitute housing units in rooms on the basement and ground levels. The former industrial building will be substantially rotational housing units in Case 1 and 800 PLN/m<sup>2</sup> for units under Case 2 will be higher than that for the temporary rotational units in Case 1. Five PLN/m<sup>2</sup> is projected for the construction of the commercial/retail and miscellaneous spaces. Construction supervision costs at 2 percent construction will also be incurred. The projected total conversion costs are 1,410,100 PLN for 1 and 1,536,175 PLN for Case 2. The cost of relocation will not be paid from Program 11 funds construction costs for labor and an average worker's salary of 600 PLN/month, a total of 26 jobs

Occupancy of ul. Maja will occur in April 1999 for both the residential and commercial/retail The projected residential rent for a unit classified in the highest rent category is 1.30 warrant any higher rent classification, as both the rotational and substitute housing units will be in the highest rent classification. Residential rents are projected to increase at the ZGM proposed projected at 130 PLN/m<sup>2</sup> for 1998 and are projected to rise by 12 percent in 1999 and 11 percent



in 2000. Revenues to the city from real estate taxes should increase once the new law is implemented basing them on actual assessed value.

Commercial/retail rents are currently projected at 20 PLN/m<sup>2</sup> for a basement space and 35 PLN/m<sup>2</sup> for a ground floor space for 1998. These projected rents are based on comparables in similar locations. The commercial rents are anticipated to increase at the rate of inflation, which is projected at 10 percent for 1999 and 8 percent for 2000. Commercial rents will rise annually on April 1st. All operating expenses for the commercial/retail spaces will be paid separately by the tenants.

The income projection for Maja does show cash flow before debt over the program period. This is due to the high market rents from the commercial/retail spaces and the fact that they will be leased on a net basis with no operating expenses being borne by the building. The city currently has a very healthy commercial/retail market with little or no vacancies, and the trend is anticipated to continue in the future. The net cash flow from Maja will be applied annually to reduce the interest on the debt borrowed to finance Program 11.

Overall, Program 11 expenditures will total 1,410,100 PLN in Case 1 and 1,520,000 PLN in Case 2 over the four-year period, with accompanying interest of 715,980 PLN in Case 1 and 774,146 PLN in Case 2. With interest, therefore, the total cost of Program 11 will be 2,029,380 PLN in Case 1 and 2,226,369 in Case 2, after repayment of a portion of the accompanying interest by 96,700 PLN of net cash flow in Case 1 and 67,778 PLN in Case 2. Though this modest amount of cash flow is applied to reduce the program's interest, no recovery of the investment of Program 11 funds is anticipated.

#### **2.6.5 Project Risks**

Factors threatening the success of this program include:

- shifting of funds away from this program for other investment programs;
- problems of ownership and other legal issues on future buildings considered for conversion;
- environmental hazards discovered during technical evaluation;
- extending time frames for construction, due to extended procurement procedures, e.g., the necessity of repeating bidding procedures; and
- lack of institutional capacity in the city organizational structure or the ZGM to implement this program in parallel with the others.



**PROGRAM 11 - Conversion of Industrial Buildings for Relocation Housing**

<b><u>CASE 1 - Rotational Housing</u></b>	<b><u># OF UNITS</u></b>	<b><u>AREA (m2)</u></b>	<b><u>RENT MONTHLY (m2)</u></b>	<b><u>RENT</u></b>	<b><u>ANNUAL RENT</u></b>
Residential					
Category - M2	3	75	1.30	98	1,170
Category - M3	21	840	1.30	1,092	13,104
RESIDENTIAL SUBTOTAL	24	915		1,190	14,274
Commercial/Retail					
Space 1	1	100	35	3,500	42,000
Space 2	1	120	35	4,200	50,400
Space 3	1	180	35	6,300	75,600
Space 4	1	125	20	2,500	30,000
Space 5	1	125	20	2,500	30,000
COMMERCIAL/RETAIL SUBTOTAL	5	650		19,000	228,000
Miscellaneous					
Storage Rooms	24	96			
Mechanical Systems	5	50			
Corridors & Entries	1	466			
MISCELLANEOUS SUBTOTAL	30	717		0	
<b>CASE 1 GRAND TOTAL</b>	<b>59</b>	<b>2,282</b>		<b>20,190</b>	<b>242,274</b>
 <b><u>CASE 2 - Substitute Housing</u></b>					
Residential					
Category - M3	15	600	1.30	780	9,360
Category - M4	6	420	1.30	546	6,552
RESIDENTIAL SUBTOTAL	21	1,020		1,326	15,912
Commercial/Retail					
Space 1	1	100	35	3,500	42,000
Space 2	1	120	35	4,200	50,400
Space 3	1	180	35	6,300	75,600
Space 4	1	125	20	2,500	30,000
Space 5	1	125	20	2,500	30,000
COMMERCIAL/RETAIL SUBTOTAL	5	650		19,000	228,000
Miscellaneous					
Storage Rooms	24	96			
Mechanical Systems	5	50			
Corridors & Entries	1	466			
MISCELLANEOUS SUBTOTAL	30	612		0	
<b>CASE 2 GRAND TOTAL</b>	<b>56</b>	<b>2,282</b>		<b>20,326</b>	<b>243,912</b>

Placeholder for Program11.xlw page 2

**PROGRAM 11 - Conversion of Industrial Buildings for Relocation Housing**

<b><u>PROGRAM 11 EXPENDITURES</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>	<b><u>TOTAL</u></b>
<b><u>CASE 1 - Rotational Housing</u></b>					
Predevelopment Costs	0	53,000	0	0	53,000
Residential Construction (700 PLN/m2 X 915 m	0	480,375	160,125	0	640,500
Commercial/Retail Construction (500 PLN/m2 X	0	243,750	81,250	0	325,000
Miscellaneous Construction (500 PLN/m2 X 717	0	268,875	89,625	0	358,500
Subtotal Construction	0	993,000	331,000	0	1,324,000
Construction Supervision (2%)	0	19,860	6,620	0	26,480
Technical Sign-offs (.5%)	0	4,965	1,655	0	6,620
Total Conversion Cost	0	1,070,825	339,275	0	1,410,100
<b><u>CASE 2 - Substitute Housing</u></b>					
Predevelopment Costs	0	53,000	0	0	53,000
Residential Construction (800 PLN/m2 X 1020 r	0	612,000	204,000	0	816,000
Commercial/Retail Construction (500 PLN/m2 X	0	243,750	81,250	0	325,000
Miscellaneous Construction (500 PLN/m2 X 612	0	229,500	76,500	0	306,000
Subtotal Construction	0	1,085,250	361,750	0	1,447,000
Construction Supervision (2%)	0	21,705	7,235	0	28,940
Technical Sign-offs (.5%)	0	5,426	1,809	0	7,235
Total Conversion Cost	0	1,165,381	370,794	0	1,536,175



**PROGRAM 11 - Conversion of Industrial Buildings for Relocation Housing**

<b><u>CASE 1 - Rotational Housing</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>	<b><u>TOTAL</u></b>
<b><u>SOURCES OF REVENUE</u></b>			(9 months)		
Gross Residential Income	0	0	16,165	20,166	36,332
Projected Residential Rent Increases			51%	33%	
Vacancy/Bad Debts (20%)	0	0	(3,233)	(4,033)	(7,266)
Net Residential Income	0	0	12,932	16,133	29,065
Gross Commercial/Retail Income	0	0	188,100	199,386	387,486
Projected Commercial/Retail Rent Increases			10%	8%	
Vacancy/Bad Debts (10%)	0	0	(18,810)	(19,939)	(38,749)
Net Commercial/Retail Income	0	0	169,290	179,447	348,737
TOTAL SOURCES OF REVENUE	0	0	182,222	195,580	377,803
<b><u>USES OF REVENUE</u></b>					
Residential Operating Expenses (130 zt/1	0	0	133,224	147,879	281,103
Projected Operating Expense Increases			12%	11%	
NET CASH FLOW BEFORE DEBT	0	0	48,998	47,702	96,700
<b><u>PROGRAM 11 EXPENDITURES</u></b>					
Program 11 Cumulative	0	1,070,825	1,410,100	1,410,100	
Interest on Program 11 Expenditures	0	228,086	258,048	229,846	715,980
Projected Interest Rate on Debt	0	21.3%	18.3%	16.3%	
NET CASH FLOW AFTER DEBT	0	(228,086)	(209,050)	(182,145)	(619,280)
<b><u>CASE 2 - Substitute Housing</u></b>					
<b><u>SOURCES OF REVENUE</u></b>			(9 months)		
Gross Residential Income	0	0	18,020	22,480	40,501
Projected Residential Rent Increases			51%	33%	
Vacancy/Bad Debts (20%)	0	0	(3,604)	(4,496)	(8,100)
Net Residential Income	0	0	14,416	17,984	32,401
Gross Commercial/Retail Income	0	0	188,100	199,386	387,486
Projected Commercial/Retail Rent Increases			10%	8%	
Vacancy/Bad Debts (10%)	0	0	(18,810)	(19,939)	(38,749)
Net Commercial/Retail Income	0	0	169,290	179,447	348,737
TOTAL SOURCES OF REVENUE	0	0	183,706	197,432	381,138
<b><u>USES OF REVENUE</u></b>					
Residential Operating Expenses (130 zt/1	0	0	148,512	164,848	313,360
Projected Operating Expense Increases			12%	11%	
NET CASH FLOW BEFORE DEBT	0	0	35,194	32,583	67,778
<b><u>PROGRAM 11 EXPENDITURES</u></b>					
Program 11 Cumulative	0	1,165,381	1,520,000	1,520,000	
Interest on Program 11 Expenditures	0	248,226	278,160	247,760	774,146
Projected Interest Rate on Debt	0	21.3%	18.3%	16.3%	
NET CASH FLOW AFTER DEBT	0	(248,226)	(242,966)	(215,177)	(706,369)

## **Program 12 — Adaptation of Ground Floor Units for Commercial Use**

### **2.7.1**

The adaptation of ground floor units for commercial use is the twelfth component of the Housing Investment Program. Work envisioned under this investment program is to be viewed as a preceded by the implementation of Program 11, providing substitute/rotational housing for the being displaced by Program 12. The purpose of this program is to generate additional revenue tenants, to commercial use. These commercial spaces will come from units that are on attractive, streets that are well-located for commercial activity. Spaces will be leased according to a competitive that 1,200,000 PLN will be spent between the years 1997 and 2000. Cost savings can be realized more units adapted if the city decides not to perform the minimal adaptation that it currently intends to do after the present residential tenants are relocated.

very modest revenues from the below-economic leasable residential area is 1.10 percent of its replacement cost (3 percent is allowed under the and has remained at about the same level since 1995. Given the City Council's lack of willingness compensate by increasing rents on commercial spaces. These rents are systematically raised or are bidding process. The city also seeks to increase the amount of commercial/retail space. This program works toward that goal.

1997-1998, 14 units are to be adapted for commercial/retail units. These are located in nine standards (index - 4-8), and rent income is also low. Areas range from 16.68-76.51 m<sup>2</sup>. The cost managing and maintaining these units is a net drain on the ZGM operating budget, as rents do not commercial/retail strips. The total area of commercial space to be gained is 670 m<sup>2</sup>. Some units

The city has an inventory of 1,081 communal residential buildings. There is a significant number ground floor units, some of which are affected by significant air and noise pollution, leading to to stay in these locations, even though the majority of these units are also in poor technical due to years of poor maintenance. In many cases, these locations are often very desirable for the city. The demand for commercial space in the city has been strong, as Bielsko Biala is one

The objectives of this program are:

- expand the amount of commercial/retail space in the city, especially along busy streets and in shopping districts;  
to increase revenues from city-owned buildings through conversion of ground floor space
- to relocate tenants occupying substandard ground floor units to better quality units.



## 2.7.2 Program Implementation

This program could be implemented in two possible ways:

- the adaptation of units by the city using its own funds; or
- the adaptation of units by their future users from their own funds, after entering into a lease with the city.

For the purposes of this analysis and to ensure early implementation, it has been assumed that the first option would be followed.

The program will be implemented in the following steps.

1. Identification of the appropriate units for conversion/adaptation
  - a. Performing all of the required technical analyses
  - b. Executing as-built/inventory drawings
  - c. Assessing the local commercial/retail market and potential rents
2. Preparation of the project
  - a. Preparation of architectural/technical documentation
  - b. Acquiring a building permit from the city
  - c. Selecting a contractor through competitive bidding, according to the rules and regulations of the Public Procurement Act
3. Relocation of tenants to substitute units
4. Completion of the demolition/construction works
5. Advertising/marketing of the available units
6. Competitive bidding for the lease rights to the premises

If the second option were to be selected, steps 2 and 4 would take place after step 6 and be performed by the successful bidder/lessee.

The program will be implemented by the ZGM. Funds earmarked for it are as follows:

1997	300,000 PLN
1998	400,000 PLN
1999	300,000 PLN
2000	200,000 PLN

The 1,200,000 PLN total will come through the city's line of credit.

As mentioned, it is envisioned that 14 units will be adapted during the first phase (1997-1998), according to the first option. Additional units will be identified, and the ZGM will develop a schedule for their adaptation.

As part of the implementation strategy, it is envisioned that a task group will be formed in the ZGM for the adaptation of the units. This task group will benefit from the expertise of individuals from the former "bond committee," who have already worked on this program, as well as

of the ZGM and a representative from City Hall. Overall responsibility for implementation

Mr. Gerlach. No new individuals are expected to be hired.

A

tion works for a unit should be completed in a 2-6 month time frame, according to the first option

### **2.7.3 Anticipated Social and Economic Benefits**

- an improvement in the housing conditions of the relocated tenants; and
- a reduction in complaints by the tenants resulting from current difficult living conditions in

The following economic benefits have been identified:

- 
- an increase in the value of assets.

### **2.7.4**

The analysis of the financial feasibility of Program 12 focuses on the conversion and adaptation  
14 ground floor residential units to commercial/retail spaces. The rents, rehabilitation, and  
residential

projecting the future expenditures of Program 12 funds and for estimating the number of

The 14 ground floor residential units that were selected for conversion to commercial/retail spaces  
located in Bielsko Biala's downtown business district on both central and peripheral streets.

Five

commence in early 1998. The estimated cost of relocation is currently 250 PLN/m<sup>2</sup> and includes  
both

to alternative rental units. The cost of converting the vacated residential units to commercial/retail

In 1998, 9 ground floor units will be converted at a cost of 323,315 PLN, followed by 12 ground  
units at a cost of 500,061 PLN in 1998, and 8 ground floor units at a cost of 376,623 PLN  
in

costs per unit for the identified 14 ground floor units inflated 16 percent in 1999, and 14 percent  
2000. It is projected that Program 11 funds will be sufficient to convert 29 ground floor  
residential

a 14 percent share of construction costs for labor and an average worker's salary of 600  
PLN/month, a total of 23 jobs over the period will be generated by Program 12.

a result of conversion from residential to commercial/retail use, monthly rents will rise  
substantially.

proximity of the location to Bielsko Biala's central business district. These projected rents are  
to increase annually at the rate of inflation, which is 10 percent for 1999 and 8 percent  
for

the year of conversion. Commercial rents will rise annually on July 1st. All operating expenses for the commercial/retail spaces will be paid separately by the tenants.

The income projection for Program 12 does show positive cash flow before debt over the program period. This is due to the high market rents from the commercial/retail spaces and the fact that they will be leased on a net basis with no operating expenses being borne by the building. The city currently has a very healthy commercial/retail market with little or no vacancies, and the trend is anticipated to continue in the future. The net cash flow from Program 12 will be applied annually to reduce the interest on the debt borrowed to finance the program.

Overall, Program 12 expenditures will total 1,200,000 PLN over the four-year period, with accompanying interest of 415,144 PLN. Of this total investment in Program 12, 1,037,196 PLN will remain to be recovered from future cash flow. The projected net cash flow from Program 12 could be improved significantly by concentrating the investment on ground floor units that command the higher end — 30 PLN/m<sup>2</sup> — of the current rental range for commercial/retail spaces.

### **2.7.5 Program Risks**

The following risks are associated with the implementation of this program.

- Build-out of retail units by lessees involves significant expenditures that may not be available to most prospective tenants.
- There is a limited number of relocation units to house the current tenants.
- Construction costs may increase significantly above the rate of inflation.
- Demand for these retail spaces may drop if private investors offer new, less expensive space for rent in comparable locations.
- Limited variation in unit sizes may not fit market demand.
- There is a lack of institutional capacity in the city organizational structure as in the ZGM to implement this program in parallel with the others.

Placeholder for program12.xlw page 1

**PROGRAM 12 - Conversion of Ground Floor Units**

<b>CURRENT CONDITION</b>	AREA (m2)	RENT CLASS	RENT (m2)	MONTHLY RENT	ANNUAL RENT	ARREARS	RENT SUBSIDY
1. ul. 11 Listopada 65/2	75.83	4	1.11	84.17	1,010.06	128.44	
2. ul. 11 Listopada 65/10	52.60	7	0.91	47.87	574.39	162.80	37.46
3. ul. Stojalowskiego 43/1	42.09	5	1.04	43.77	525.28		
4. ul. Stojalowskiego 43/8	36.84	5	1.04	38.31	459.76		
5. ul. Stojalowskiego 53/2	76.51	7	1.21	92.58	1,110.93	381.42	186.89
6. ul. Barlickiego 16/1	47.63	5	1.04	49.54	594.42		
7. ul. Barlickiego 22/1	43.82	4	1.11	48.64	583.68	119.49	
8. ul. Barlickiego 19/1	61.58	5	1.09	67.12	805.47		
9. ul. Lukowa 15/2	19.24	8	0.85	16.35	196.25		
10. Pl. Woj. Polskiego 5 (office)	16.88	8	0.85	14.35	172.18		
11. Pl. Woj. Polskiego 5	51.88	8	0.85	44.10	529.18	855.71	
12. Pl. Ratuszowy 4/1	57.84		0.85	49.16	589.97		
13. Pl. Ratuszowy 4/2	39.41		0.85	33.50	401.98		
14. Pl. Ratuszowy 4/3	48.43		0.85	41.17	493.99		
<b>TOTALS</b>	<b>670.58</b>			<b>670.63</b>	<b>8,047.53</b>	<b>1,647.86</b>	<b>224.35</b>
<b>AFTER REHABILITATION</b>	AREA (m2)	RENT CLASS	RENT (m2)	MONTHLY RENT	ANNUAL RENT	REHAB COST	RELOCATE COST
1. ul. 11 Listopada 65/2	75.83		30.00	2,274.90	27,298.80	37,915	18,958
2. ul. 11 Listopada 65/10	52.60		30.00	1,578.00	18,936.00	26,300	13,150
3. ul. Stojalowskiego 43/1	42.09		20.00	841.80	10,101.60	21,045	10,522
4. ul. Stojalowskiego 43/8	36.84		20.00	736.80	8,841.60	18,420	9,210
5. ul. Stojalowskiego 53/2	76.51		20.00	1,530.20	18,362.40	38,255	19,128
6. ul. Barlickiego 16/1	47.63		16.00	762.08	9,144.96	23,815	11,908
7. ul. Barlickiego 22/1	43.82		16.00	701.12	8,413.44	21,910	10,955
8. ul. Barlickiego 19/1	61.58		16.00	985.28	11,823.36	30,790	15,395
9. ul. Lukowa 15/2	19.24		16.00	307.84	3,694.08	9,620	4,810
10. Pl. Woj. Polskiego 5 (office)	16.88		16.00	270.08	3,240.96	8,440	4,220
11. Pl. Woj. Polskiego 5	51.88		16.00	830.08	9,960.96	25,940	12,970
12. Pl. Ratuszowy 4/1	57.84		30.00	1,735.20	20,822.40	28,920	14,460
13. Pl. Ratuszowy 4/2	39.41		30.00	1,182.30	14,187.60	19,705	9,852
14. Pl. Ratuszowy 4/3	48.43		30.00	1,452.90	17,434.80	24,215	12,108
<b>TOTALS</b>	<b>670.58</b>		<b>306.00</b>	<b>15,188.58</b>	<b>182,262.96</b>	<b>335,290</b>	<b>167,645</b>
<b>AVERAGE PER GROUND FLOOR UNIT</b>	<b>47.90</b>		<b>21.86</b>	<b>1,084.90</b>	<b>13,018.78</b>	<b>23,949</b>	<b>11,975</b>

**ASSUMPTIONS**

Rehabilitation Cost = 500 PLN/m2

Relocation Cost = 250 PLN/m2

Placeholder for program12.xlw page 2

**PROGRAM 12 - Conversion of Ground Floor Units**

<b><u>PROGRAM 12 REVENUES</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>	<b><u>TOTAL</u></b>
Average Annual Rent per Ground Floor Unit	0	13,019	14,321	15,466	
(6 mos. on new units)					
Gross Commercial/Retail Income	0	58,585	208,951	374,628	642,164
Vacancies & Bad Debts (10%)	0	(5,858)	(20,895)	(37,463)	(64,216)
Net Commercial/Retail Income	0	52,726	188,056	337,166	577,948
Projected Commercial /Retail Rent Increases (7/1)		13%	10%	8%	
Average Rehabilitation Cost per Ground Floor Unit	0	23,949	27,781	31,671	
Average Relocation Cost per Ground Floor Unit	0	11,975	13,891	15,835	
Total Conversion Cost per Ground Floor Unit	0	35,924	41,672	47,506	
Projected Inflation Rate on Conversion Cost		18%	16%	14%	
<b><u>PROGRAM 12 EXPENDITURES</u></b>	0	323,315	500,061	376,623	1,200,000
Projected Number of Ground Floor Units	0	9	12	8	29
Projected Area (m2) of Ground Floor Units	47.90	431	575	383	1,437 m2
average					
Program 12 Cumulative	0	323,315	823,376	1,199,999	2,346,690
Interest on Program 12 Cumulative		68,866	150,678	195,600	415,144
Projected Interest Rate on Debt	0	21.3%	18.3%	16.3%	
Program 12 Cash Flow Before Debt	0	52,726	188,056	337,166	577,948
<b>PROGRAM 12 WITH INTEREST</b>	<b>0</b>	<b>339,455</b>	<b>462,683</b>	<b>235,058</b>	<b>1,037,196</b>

### 3 Conclusions and Recommendations

#### Conclusions

The *gmina's* Strategy and should (with perhaps one exception) form part of the city's overall Capital Investment the 12 twelve components of the Program. The remaining five components should be subjected

The results of the analysis for the seven projects are summarized in the attached table. Total including interest costs is projected at PLN 15,840,258. While some of the Program compon benefits that may outweigh the negative financial results.

Of the PLN 15,840,258 invested and financed utilizing the PKO BP line of credit, PLN 3,635,037 projected to be recoverable from project-specific revenues, and PLN 12,205,221 will need to repaid *gmina*. Bielsko Biala, it would seem appropriate for some of these program components to continue the four-year time horizon. However, given the lack of full cost recovery on some of these programs, the *gmina* would need to incur additional debt in in turn would impact significantly on the *gmina's* annual operating budgets and its debt-carrying

Each Program component will require significant additional effort to work out the details of of the legal and financial issues. This will require the *gmina* the ZGM to significantly bolster their institutional capacity, appointing or hiring staff with the appropriate skills to design, manage, and implement these complex projects.

#### Recommendations

The city's Housing Sector Investment Program. Based on this analysis, the may find some of of the consultants to recommend which components should or should not be implemented. based on these analyses and an overall understanding of the Bielsko Biala housing sector, a number of general recommendations can be made.

Polish housing sector is in transition from a state- or public sector-driven delivery system to a as an enabler, creating an appropriate regulatory environment and creating sufficient incentives the private sector, including nongovernmental organizations (NGOs), to invest in housing. It is it reflects this transition in roles.

The *gmina* may be adversely private investment, especially in housing rehabilitation. The first steps toward privatization of the ZGM will begin to bring private maintenance and management into the



market. It is recommended that the *gmina* consider developing a strategy to increase the privatization of its communal housing stock.

It is also recommended that the *gmina* review these seven projects initially in the context of the Housing Sector Investment Program as a whole and, second, in the context of an overall CIP before making any investment decisions.

Finally, it is recommended that the *gmina* establish a clear hierarchy of responsibility for the implementation of the Program, with project or component teams reporting to an overall Investment Task Force or Committee that, in turn, reports to the Mayor and Council.

**BIELSKO - BIALA HOUSING SECTOR INVESTMENT PROGRAM**

<b><u>PROGRAM EXPENDITURES</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>	<b><u>TOTAL</u></b>
<b>* PROGRAM 1</b>	<b>180,000</b>	<b>1,265,000</b>	<b>1,335,000</b>	<b>1,170,000</b>	<b>3,950,000</b>
Interest on Cumulative	38,340	307,785	508,740	643,850	1,498,715
Projected Cash Flow	0	0	0	0	0
<b>SUBTOTAL</b>	<b>218,340</b>	<b>1,572,785</b>	<b>1,843,740</b>	<b>1,813,850</b>	<b>5,448,715</b>
<b>PROGRAM 2</b>	<b>28,820</b>	<b>877,081</b>	<b>2,230,573</b>	<b>1,913,527</b>	<b>5,050,000</b>
Interest on Cumulative	6,139	192,957	573,975	823,150	1,596,220
Projected Cash Flow	0	0	0	0	0
<b>SUBTOTAL</b>	<b>34,959</b>	<b>1,070,038</b>	<b>2,804,547</b>	<b>2,736,677</b>	<b>6,646,220</b>
<b>* PROGRAM 3</b>	<b>600,000</b>	<b>1,380,000</b>	<b>1,520,000</b>	<b>0</b>	<b>3,500,000</b>
Interest on Cumulative	127,800	421,740	640,500	570,500	1,760,540
Projected Cash Flow	0	0	0	0	0
<b>SUBTOTAL</b>	<b>727,800</b>	<b>1,801,740</b>	<b>2,160,500</b>	<b>570,500</b>	<b>5,260,540</b>
<b>PROGRAM 4</b>	<b>12,513</b>	<b>88,589</b>	<b>171,271</b>	<b>227,628</b>	<b>500,000</b>
Interest on Cumulative	2,665	21,535	49,844	81,500	155,544
Projected Cash Flow	0	0	0	0	0
<b>SUBTOTAL</b>	<b>15,178</b>	<b>110,123</b>	<b>221,115</b>	<b>309,128</b>	<b>655,544</b>
<b>PROGRAM 5</b>	<b>50,000</b>	<b>250,000</b>	<b>200,000</b>	<b>150,000</b>	<b>650,000</b>
Interest on Cumulative	10,650	53,250	36,600	24,450	124,950
Projected Cash Flow	60,650	303,250	236,600	174,450	774,950
<b>SUBTOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>* PROGRAM 6</b>	<b>2,870,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,870,000</b>
Interest on Cumulative	611,310	611,310	525,210	467,810	2,215,640
Projected Cash Flow	0	0	0	0	0
<b>SUBTOTAL</b>	<b>3,481,310</b>	<b>611,310</b>	<b>525,210</b>	<b>467,810</b>	<b>5,085,640</b>
<b>* PROGRAM 7</b>	<b>200,000</b>	<b>410,000</b>	<b>200,000</b>	<b>0</b>	<b>810,000</b>
Interest on Cumulative	42,600	129,930	148,230	132,030	452,790
Projected Cash Flow	0	0	0	0	0
<b>SUBTOTAL</b>	<b>242,600</b>	<b>539,930</b>	<b>348,230</b>	<b>132,030</b>	<b>1,262,790</b>
<b>* PROGRAM 8</b>	<b>250,000</b>	<b>800,000</b>	<b>600,000</b>	<b>0</b>	<b>1,650,000</b>
Interest on Cumulative	53,250	223,650	301,950	268,950	847,800
Projected Cash Flow	0	0	0	0	0
<b>SUBTOTAL</b>	<b>303,250</b>	<b>1,023,650</b>	<b>901,950</b>	<b>268,950</b>	<b>2,497,800</b>
<b>PROGRAM 9 &amp; 10</b>	<b>504,000</b>	<b>1,000,000</b>	<b>1,296,000</b>	<b>0</b>	<b>2,800,000</b>
Interest on Cumulative	107,352	295,719	367,660	89,606	860,337
Projected Cash Flow	223,000	971,000	1,827,000	639,337	3,660,337
<b>SUBTOTAL</b>	<b>388,352</b>	<b>324,719</b>	<b>(163,340)</b>	<b>(549,731)</b>	<b>0</b>
<b>PROGRAM 11</b>	<b>0</b>	<b>1,165,381</b>	<b>354,619</b>	<b>0</b>	<b>1,520,000</b>
Interest on Cumulative	0	248,226	278,160	247,760	774,146
Projected Cash Flow	0	0	35,194	32,583	67,777
<b>SUBTOTAL</b>	<b>0</b>	<b>1,413,607</b>	<b>597,585</b>	<b>215,177</b>	<b>2,226,369</b>
<b>PROGRAM 12</b>	<b>0</b>	<b>323,315</b>	<b>500,061</b>	<b>376,623</b>	<b>1,200,000</b>
Interest on Cumulative	0	68,866	150,678	189,507	409,051

Projected Cash Flow	0	52,726	188,056	337,166	577,948
<b>SUBTOTAL</b>	<b>0</b>	<b>339,455</b>	<b>462,683</b>	<b>228,964</b>	<b>1,031,103</b>

<b>PROGRAM EXPENDITURES</b>	<b>4,695,333</b>	<b>7,559,366</b>	<b>8,407,524</b>	<b>3,837,778</b>	<b>24,500,000</b>
Ann. Principal Repaymt. from Munic. Budget	3,000,000	3,000,000	3,000,000	3,000,000	12,000,000
Projected Cash Flow Applied to Principal	165,648	925,281	1,696,718	847,930	3,635,037
<b>OUTSTANDING PRINCIPAL</b>	<b>1,529,885</b>	<b>3,834,084</b>	<b>3,710,806</b>	<b>(9,612)</b>	<b>8,864,963</b>
<b>INTEREST ON EXPENDITURES</b>	<b>1,000,106</b>	<b>2,574,968</b>	<b>3,581,547</b>	<b>3,539,113</b>	<b>10,695,734</b>
Interest Credit on Annual Principal Repamt.	0	639,000	1,098,000	1,467,000	3,204,000
Ann. Interest Repamt. from Munic. Budget	882,104	1,534,273	1,893,415	1,735,967	6,045,759
Projected Cash Flow Applied to Interest	118,002	401,695	590,132	338,146	1,445,975
<b>OUTSTANDING INTEREST</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Expenditure projections for these programs were based on the overall budget included in the Housing Sector Investment Program,

\* and were not subject to the same analysis given the programs included in this report.